

CA1
MT 76
A66



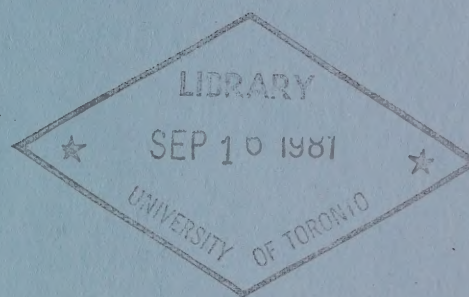
3 1761 11637704 5



NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of the Application under
Part IV of the National Energy Board Act
(Rates Application)

of



TransCanada PipeLines Limited

Phase I

August 1981

NATIONAL ENERGY BOARD

REASONS FOR DECISION

In the Matter of the Application Under
Part IV of the National Energy Board Act
(Rates Application)

OF

TRANSCANADA PIPELINES LIMITED

PHASE I

August 1981

Ce rapport est publié
séparément dans les
deux langues officielles.

NATIONAL ENERGY BOARD

IN THE MATTER of the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada PipeLines Limited for certain orders respecting rates and tolls under Sections 50, 52 and 53 of the National Energy Board Act and for certain orders under Section 53 of the Petroleum Administration Act, filed with the Board under File No. 1562-T1-14.

Heard at Ottawa, Ontario on 29 and 30 June 1981, and 2, 3, 6, 7, 8, 9, 10, 13, 14, 16 and 17 July 1981.

BEFORE:	C.G. Edge	Presiding Member
	R.B. Horner	Member
	A.B. Gilmour	Member

APPEARANCES:

J.H. Francis, Q.C.	)	TransCanada PipeLines Limited
J.W.S. McOuat, Q.C.)	
J.B. Ballem, Q.C.		Canadian Petroleum Association
C.K. Yates		Independent Petroleum Association of Canada
J.H. Smellie		Dome Petroleum Limited
J.J. Marshall		Norcen Energy Resources Limited
D.G. Hart, Q.C.		PanCanadian Petroleum Limited
W. Gallagher		Petro-Canada
P.S. Jull		Sulpetro Limited
P. Martin		Gaz Métropolitain, inc.
Y. Brisson		Gaz Inter-Cité Québec Inc.
R.G. Smellie		Greater Winnipeg Gas
J.D. Brett		Inter-City Gas Corporation
P.F. Scully		Northern and Central Gas Corporation Limited
J. Griffin, Q.C.		Saskatchewan Power Corporation and for the Department of Mineral Resources of Saskatchewan

(ii)

J.H. Farrell		The Consumers' Gas Company Ltd
A. Mudryj		Union Gas Limited
B.A. Crane, Q.C.	)	Canadian Montana Pipe Line
D. Simmonds	)	Company
G.D. Nichols		Consolidated Natural Gas Limited
C.E. Repchinsky		Dow Chemical of Canada Limited
W.T. Houston	)	Trans Québec & Maritimes
H. Soloway, Q.C.	)	Pipeline Inc.
P.C.P. Thompson, Q.C.		Industrial Gas Users Association
J. Hopwood, Q.C.		Nova, An Alberta Corporation
K.F. Keeler		Pan-Alberta Gas Ltd.
N. Roy		Société Québécoise d'Initiatives Pétrolières
R.D. Hall		Alberta Petroleum Marketing Commission
N.D. Shende		Attorney General of Manitoba
J.M. Johnson, Q.C.		Ministry of Energy for Ontario
J. Giroux		Procureur Général de la province de Québec
P.G. Griffin	)	National Energy Board
L.E. Smith)	

TABLE OF CONTENTS

	<u>Page</u>
Recital and Appearances	(i)
Table of Contents	(iii)
Abbreviations and Definitions	(v)
 1. THE APPLICATION	 1 - 1
2. SCHEME OF REGULATION	2 - 1
3. RATE BASE	3 - 1
Gross Plant	3 - 2
(i) Unauthorized Capital Projects	3 - 2
(ii) Greenhouse Ductwork	3 - 2
(iii) Allowance for Funds Used During Construction	3 - 3
(iv) Aircraft	3 - 5
Accumulated Depreciation	3 - 5
Working Capital	3 - 6
(i) Cash	3 - 6
(ii) Transmission Line Pack	3 - 7
Average Deferred Income Taxes	3 - 7
Interest AFUDC	3 - 8
Other Deferred Costs	3 - 9
 4. RATE OF RETURN	 4 - 1
Deemed Capital Structure	4 - 1
Inclusion of GPUC in Capitalization	4 - 2
Debt	4 - 3
(i) Funded Debt	4 - 3
(ii) Unfunded Debt	4 - 4
Preferred Equity	4 - 4
Common Equity	4 - 4
(i) Deemed Common Equity Ratio	4 - 4
(ii) Rate of Return on Common Equity	4 - 5
Rate of Return on Rate Base	4 - 6
 5. TRANSPORTATION COST OF SERVICE	 5 - 1
Transmission by Others	5 - 2
(i) Great Lakes Fuel Adjustment	5 - 2
(ii) TQ&M Cost of Service	5 - 3
(iii) Steelman Gas	5 - 3
Operation and Maintenance	5 - 4
(i) Lost and Unaccounted for Gas	5 - 4

	<u>Page</u>
(ii) Cost of Gas Used in Operations	5 - 5
(iii) Salaries and Employee Benefits	5 - 6
(iv) Loss on Revaluation of Transmission Line Pack Gas	5 - 6
(v) Special Canadian Ownership Charge on Company Used Gas (Effective 1 May 1981) and the Increase in the Excise Tax (Effective 1 July 1981)	5 - 7
(a) Deferred Amount	5 - 7
(b) Carrying Charges	5 - 7
(c) Accounting Treatment	5 - 8
Depreciation	5 - 8
Income Taxes	5 - 9
(i) Normalized versus Flow-through Method of Calculating Income Taxes	5 - 9
(ii) "Stand-Alone" Approach to Computing Income Taxes	5 - 9
(iii) Non-Allowed Amortization of Debt Discount and Expense	5 - 12
6. TOLL DESIGN AND OTHER TARIFF MATTERS	6 - 1
T-Service Transmission Tolls	6 - 1
Other Transmission Tolls	6 - 1
Other Tariff Matters	6 - 2
7. COST OF GAS	7 - 1
Total Revenues	7 - 1
Export Flowback	7 - 2
Transportation Cost of Service	7 - 2
8. DISPOSITION	8 - 1
 <u>APPENDICES</u>	
I	Hearing Order RH-4-81
II	Order No. TG-3-81
III	Order No. TG-4-81
IV	Comparison of Components of Rate of Return Previously Authorized, Applied For, and Approved
V	Weighted Average Cost of Funded Debt Capital for the Test Year Ending 30 June 1982
VI	Proposed Funded Debt Financing for the Test Year Ending 30 June 1982
VII	Existing Prescribed Prices for Canadian Sales
VIII	Calculation of Adjustment Factors for Transportation Tolls
IX	Approved Transportation Tolls
X	Minister's Policy Statement

ABBREVIATIONS AND DEFINITIONS

ACQ	- Authorized Contract Quantity
AFUDC	- Allowance for Funds Used During Construction
ANG	- Alberta Natural Gas Company Ltd.
AOI	- Authorized Overrun Interruptible
Board, NEB	- National Energy Board
Consolidated	- Consolidated Natural Gas Limited
CD	- Contract Demand
CDE	- Canadian Exploration and Development Expenses
CPA	- Canadian Petroleum Association
DCF	- Discounted Cash Flow
FDPS	- First Date Placed in Service
Gaz Métro	- Gaz Métropolitain, inc.
GJ	- Gigajoule (10^9 joules)
GPIS	- Gas Plant in Service
GPUC	- Gas Plant under Construction
Great Lakes	- Great Lakes Gas Transmission Company
GSTT	- General System Transmission Tolls
IGUA	- Industrial Gas Users Association
Imputed Alberta Border Price	- As defined in the Petroleum Administration Act Natural Gas Prices Regulations
IPAC	- Independent Petroleum Association of Canada
MJ	- Megajoule (10^6 joules)
MMBtu	- Million British thermal units
NEB Act	- National Energy Board Act
PAA	- Petroleum Administration Act
ProGas	- ProGas Limited
PS	- Peaking Service

Saskatchewan Power - Saskatchewan Power Corporation

SGS - Small General Service

Steelman Gas - Steelman Gas Limited

Sulpetro - Sulpetro Limited

TCPL Resources - TCPL Resources Ltd.

TQ&M - Trans Québec & Maritimes Pipeline Inc.

TransCanada, TCPL, the Applicant, the Company - TransCanada PipeLines Limited

TWS - Temporary Winter Service

Union Gas - Union Gas Limited

August 1980 Reasons for Decision - "National Energy Board Reasons for Decision in the Matter of the Application under Part IV of the National Energy Board Act (Rates Application) of TransCanada PipeLines Limited - August 1980."

CHAPTER 1
THE APPLICATION

By an application dated 27 February 1981, TransCanada applied to the the Board under sections 50, 52 and 53 of the NEB Act for Orders fixing the just and reasonable rates and tolls TransCanada may charge for or in respect of gas transported and sold by the Applicant in Canada and for transportation services rendered to Saskatchewan Power, Consolidated, Sulpetro and Gaz Métro, and disallowing any existing tariffs or rates or tolls, or portions thereof, that are inconsistent with the just and reasonable tolls so fixed, effective 1 July 1981.

TransCanada also applied under section 53 of the PAA, and the Regulations made pursuant to Part III of that Act, for Special and General Orders of the Board approving the price to be paid by the Company to acquire gas for removal from the Province of Alberta and revoking any previous orders inconsistent therewith, effective 1 July 1981.

As an amendment to its application dated 22 June 1981, TransCanada further requested an Order authorizing and directing the inclusion in its cost of service of all charges for gas transportation services rendered to TransCanada by TQ&M in accordance with the latter company's tariffs as filed with the Board and in effect.

In a letter dated 23 June 1981, TransCanada further amended its application by filing updated schedules to be incorporated in Volume 1 of its application.

Pursuant to subsection 22(2) of the NEB Act, the Minister of Energy, Mines and Resources requested that the Board, in conjunction with its hearing of the TransCanada application and in view of the Policy Statement of 14 April 1981 respecting the domestic pricing of natural gas, inquire into and report to the Minister on the necessity for developmental prices in the domestic market in Canada and any other matters relevant to the pricing of natural gas in the domestic market.

By Order No. RH-4-81, the Board set down for public hearing that part of the application made under Part IV of the NEB Act relating to TransCanada's tolls and tariffs, together with the inquiry under subsection 22(2) of the NEB Act. Phase I of the hearing dealing with the application under Part IV of the NEB Act commenced on 29 June 1981, and Phase II, dealing with the gas pricing inquiry, is to commence on 18 August 1981.

The principal issue raised by TransCanada's application under Part IV of the NEB Act was a proposal by the Applicant to change the manner of regulating its tolls and tariffs. The Company proposed that a new scheme of regulation be adopted under which the Board would prescribe or otherwise provide for tolls of a variable, monthly cost of service type. TransCanada proposed that the tolls charged, received and retained by it each month in respect of the natural gas transmitted through its pipeline or the pipelines of others and sold by it, or transmitted through its pipeline for others, outside the Province of Alberta, be equal to its actual cost of service outside Alberta in each month exclusive of the cost of gas sold. The actual cost of service for each month under the Company's proposal would be determined in accordance with the GSTT Rate Schedule filed as part of the application.

Under the Applicant's proposed scheme of regulation, the imputed Alberta border price would be calculated by taking TransCanada's revenues from sales and transportation of gas outside Alberta excluding export flowback, less its transmission cost of service and dividing that amount by the volume of gas sold. For the purposes of its proposed scheme of regulation, the Applicant assumed that there would be no change in the prices at which it sells gas in Canada outside Alberta before 1 February 1982. Consequently, any increase in the Applicant's transmission cost of service during the test period from 1 July 1981 to 30 June 1982, would result initially in a reduction of the imputed Alberta border price. On the basis of its forecast test period transmission cost of service, the Applicant determined that the imputed Alberta

border price would be reduced from its present level of \$1.77565 per gigajoule to \$1.65208. On the basis of revisions made to its application during the course of the hearing, TransCanada ultimately calculated the imputed Alberta border price to be \$1.67691 per gigajoule.

While by its terms the GSTT Rate Schedule is applicable to the determination of all tolls charged by the Company for gas sold by it or transported for others, the Applicant proposed that in the initial implementation of its new scheme of regulation, the tolls applicable to gas sold in the export market and to gas transmitted for others remain unchanged, with the following exceptions:

1. The tolls contained in the Applicant's T-Rate Schedules have in prior cases been designed so that the tolls under those schedules, when added to the imputed Alberta border price, would be equal to the price for gas sold under the CD-Rate Schedule for the same zone when adjusted for fuel supplied by the shipper. TransCanada proposed that this procedure be continued in the test period.
2. The existing tolls for gas transmitted for Consolidated and Sulpetro from Empress, Alberta, to the international boundary were established on an incremental basis subsequent to the issue of Order No. TG-4-80 arising out of the 1980 TransCanada rate proceedings. The Company proposed that these tolls be adjusted so that they are the same as those presently charged for gas transported to the same export point.

Under the Natural Gas Prices Regulations made by the Governor in Council since 1 November 1975 pursuant to sections 51 and 52 of the PAA, both the prices at which TransCanada sells gas at various points on its pipeline system and the imputed Alberta border price at which the Company purchases gas in Alberta have been fixed for periods of some six months to one year, rather than varying on a monthly basis. In order to accommodate its new scheme for tolls of the variable, monthly cost of service type, the Applicant proposed a new deferral arrangement which would be

applied to its entire transmission cost of service. More specifically, the Company requested that the Board provide, by Order for an accounting change which would require TransCanada to determine and record in a deferral account each month the difference between

1. the Company's actual transmission cost of service, exclusive of the cost of gas sold, permitted to be charged and retained under the provisions of the GSTT Rate Schedule, and
2. the revenues actually collected and retained for the month from gas sales and transportation services after deducting the cost of gas sold.

TransCanada proposed that the balance in the deferral account in each month be included in the Company's Rate Base under the GSTT Rate Schedule. It was also proposed that the balance in the deferral account as of the end of November and May in each year be amortized by adjusting, effective the following 1 January and 1 July respectively, the imputed Alberta border price by an amount estimated to eliminate the deferred balance over the estimated sales of gas for the six-month periods beginning on the 1 January and 1 July adjustment dates.

If TransCanada's proposed scheme of regulation including the above-described deferral scheme applicable to its transmission cost of service were implemented by the Board, the Company further proposed that certain existing orders of the Board for accounting and rate-making purposes be modified or terminated as follows:

1. The Transmission by Others deferral established in November 1975 and applicable to the charges by Great Lakes and Union Gas for gas transported on behalf of TransCanada would no longer be required.
2. The existing deferral for Rate Case expenses would no longer be required because under the proposed scheme, those expenses would be recovered as they are incurred.

3. The deferrals established in 1978 for exchange rate fluctuations on U.S. dollar Sinking Fund and Debt Interest Payments and for gains and losses on the Purchase of Debt would no longer be required since any fluctuations in these costs would be reflected in the monthly cost of service tolls.
4. The existing deferral for gains and losses on transmission line pack would no longer be required because TransCanada proposes to reflect such gains and losses in its cost of service as incurred.

The Applicant also requested that any balances in these deferral accounts as of 30 June 1981 be amortized over the test period in its cost of service.

In the event that the Board were to deny TransCanada's application for variable, monthly cost of service tolls, the Applicant requested the Board to fix and allow new rates, tolls and tariffs based on the existing method of regulation so as to permit recovery of the proposed cost of service for the test period. The new tolls based on this alternative are set out in Volume 2 of the application. The Company further requested, by reason of the deletion of the St. Lazare-Boisbriand facilities from its application, that the Board provide for the following deferrals:

1. If Certificates GC-64 and GC-65 are transferred from TransCanada to TQ&M, a modification of the existing order for the deferral of variances in Transmission by Others to encompass the tolls charged by TQ&M under its tariffs. In addition, the Company also requested the deferral of any difference between its revenues from sales of gas at Boisbriand and its incremental costs of such sales.
2. In the alternative, if the Certificates are not transferred to TQ&M, the Company requested an accounting order providing for the deferral of the difference between the incremental revenues and the incremental costs resulting from the operation of the St.Lazare-Boisbriand pipeline.

On 28 April 1981, TransCanada applied to the Board for an accounting order permitting the deferral of the increased costs resulting from the Special Canadian Ownership Charge effective 1 May 1981 and an increase in the Excise Tax effective 1 July 1981. On 30 April 1981, the Board approved the deferral of these increased costs for accounting purposes and directed that the disposition of these deferred amounts for rate-making purposes be dealt with in the hearing of TransCanada's rate application.

By a letter dated 22 July 1981, at the completion of the Phase I hearing, TransCanada filed with the Board and served on parties of record its final revision to its application incorporating changes which arose in the course of the hearing.

CHAPTER 2

SCHEME OF REGULATION

Under the existing method of regulation of TransCanada's tolls and tariffs, the Board fixes tolls on a prospective basis for the various services provided by the Company. The Board determines a total cost of service for a prospective test year and, on the basis of the volumes of gas forecast to be sold and transported during that year, designs tolls to recover the approved cost of service out of sales and transportation revenues. Toll rates are designed for the services provided in the various zones on the TransCanada system on the basis of volumetric and distance factors. Where the gas transported by the Company through its pipeline is sold by the Company, the contracts for the sale of that gas are filed with the Board under subsection 51(2) of the NEB Act, and are deemed to be tariffs. Section 61 of the NEB Act provides that, where the gas transmitted by a company through its pipeline is the property of the company, the differential between the cost to the company of the gas at the point where it enters its pipeline and the amount for which the gas is sold by the company, is deemed to be a toll charged by the company to the purchaser of the gas. Applying these provisions, the Board varies the rates for the sale of gas specified in those tariffs so that the rates are equal to the aggregate of the cost of the gas to the Company and the just and reasonable tolls determined by the Board. Since 1 November 1975, when Part III of the PAA came into force, the Board has further recommended that the Governor in Council prescribe prices under Part III of the PAA which are equivalent to those rates established under Part IV of the NEB Act.

In the National Energy Program, 1980, at pages 31 and 35, the Minister of Energy, Mines and Resources indicated that there would be a pause in wellhead price increases for natural gas until 1 February 1982, with the result that there will be no increase in the Toronto City Gate Reference Price until that time. On 14 April 1981, the Minister issued a policy statement dealing with domestic pricing of natural gas under Part III of the PAA. That policy statement is set out as Appendix X to these Reasons for Decision. The significant features of that policy statement are as follows:

1. For the purpose of pricing, the existing TransCanada eastern zone will be extended to include the area to be served by the proposed TQ&M pipeline system in Quebec and the Maritime Provinces, with the result that gas prices in markets east of Toronto will be the same as the prices at the Toronto City Gate for the same types of gas service.
2. Natural gas prices on the TransCanada system in zones west of the eastern zone will be linked to the Toronto City Gate price, but will be somewhat lower recognizing lower transportation costs. More particularly, prices prescribed under Part III of the PAA will no longer be derived from rates developed under Part IV of the NEB Act, as is the case now.
3. There will continue to be a uniform imputed Alberta border price for all gas produced in Alberta and consumed in Canada outside that province, and for fuel used in transmission on the Great Lakes system for gas transported back to Canada. The policy statement sets out a new formula, however, for the determination of the imputed Alberta border price. The significant feature of this formula is that the TransCanada system and the proposed TQ&M system are to be treated as one integrated pipeline for pricing purposes. In the formula, the cost of transmission and metering and all other costs associated with the movement of gas on the integrated TransCanada and TQ&M pipeline system are to be those costs approved by the Board.

TransCanada has proposed a new scheme of regulation under which the Board would provide for tolls of a variable, monthly cost of service type. Those tolls would be determined in accordance with the provisions of the GSTT Rate Schedule. The scheme, as proposed, would operate in the following manner:

1. In each year, 90 days prior to 1 July, TransCanada would file an estimate of its annual cost of service with the Board. That estimate would be the basis for the determination of the imputed Alberta border price effective 1 July in each year. That estimate could be reviewed by the Board, but it was not proposed that the estimate be subject to review by interested parties.

2. For each month, TransCanada would file a statement of its actual cost of service and revenues, together with a calculation of the actual imputed Alberta border price for that month.
3. The estimated imputed Alberta border price resulting from the estimated cost of service filed prior to 1 July, would remain in effect for six months. For each month in that period, the Company would remit to producers an amount equal to the estimated imputed Alberta border price.
4. After paying producers in accordance with item 3, TransCanada would retain the remainder of its revenues and, under its deferral scheme, defer the difference between those revenues and the actual cost of service for the month. The amount so deferred would be included in its Rate Base.
5. At the end of each six-month period, the deferred amount including carrying charges would be amortized in TransCanada's cost of service over the subsequent six months, which would require appropriate adjustments to the imputed Alberta border price or the prices at which TransCanada sells gas in that subsequent period.
6. Under TransCanada's scheme, Board auditors would review all items included in the Company's cost of service. If a cost of service item were objected to and TransCanada refused to make the appropriate adjustment, then the matter would be referred to the Board for determination. The Board could determine the matter at a public hearing if it considered it appropriate.
7. Documents filed with the Board by the Applicant under this procedure would be made available to all interested parties.

TransCanada did indicate that its scheme might operate without the use of a deferral clause. In order for that to occur, however, it would be necessary to ensure that a sufficient gap exists between sale prices for gas sold off the TransCanada system and the imputed Alberta border price in order to provide for the Company's recovery of its actual cost of service for the month. Such a procedure, in the Company's view, would be consistent with section 64 of the PAA.

Most intervenors opposed TransCanada's new scheme of regulation for its tolls, and submitted that the present scheme of regulation is fair to both TransCanada and the various shippers and distributors. They took the position that no evidence had been put forward which would justify any change in the existing scheme and that the proposed scheme was unacceptable due to the absence of any effective form of regulatory control.

TransCanada sought to justify its proposed scheme for variable, monthly cost of service tolls on a number of considerations. On its reading the National Energy Program, 1980, and the Minister's Policy Statement, the Company assumed that there would be no change in the prices at which gas is sold at points on its pipeline system prior to 1 February 1982. In addition, TransCanada interpreted the Minister's policy statement to mean that, in the calculation of the imputed Alberta border price, the actual cost of transmission and metering would be used in the price determination. The Board has great difficulty in accepting this interpretation of the Minister's Policy Statement. Firstly, the cost of transmission and metering to be used in the imputed Alberta border price formula are those approved by the Board. The policy statement does not in any way specify the manner in which those costs are to be approved. Secondly, it is difficult to see how actual costs could be used in that formula where it will be applied for the purposes of determining the imputed Alberta border price on a prospective basis. Assuming that TransCanada is correct in its conclusion that the prices at which gas is sold by it will not be changed until 1 February 1982, the Board fails to see how this has any material bearing on the question of the appropriate scheme for regulating the tolls charged by the Company.

The second reason advanced by TransCanada for a change in the scheme of regulation of its toll was the uncertainty associated with recovering its costs in a period of market expansion. The Company expressed concern over its ability to recover its costs in relation to sales of gas off the pipeline system east of Montreal. In the 1981/1982 test year, however, TransCanada only forecast sales off the new pipeline system at Boisbriand. The Company

acknowledged that these sales were relatively insignificant and would only represent some 0.47 per cent of its total sales in the test year. In addition, if the certificates for that pipeline system are transferred to TQ&M, and if the existing deferral for Transmission by Others is extended to the tolls charged by TQ&M, TransCanada acknowledged that it would be fully protected from any uncertainties associated with the charges on that pipeline system. The Company also expressed concern about the uncertainties resulting from the large capital expansion to be undertaken on its own pipeline system during the test year. The Company did not suggest, however, that since 1973 under the existing scheme of regulation it had been unable to adequately recover its costs. With the introduction of the use of a forward test period in 1975, the Applicant agreed that regulatory lag had been virtually eliminated. Moreover, it was not demonstrated that under the existing system TransCanada had been unable to earn a return close to that awarded by the Board. In fact, the evidence indicates that in 1977, albeit under somewhat extraordinary circumstances, the Company earned a return on its utility operations in excess of that awarded by the Board. In summary, the Company has failed to satisfy the Board that the present scheme of regulation has operated in a manner unfair or prejudicial to the Company, or that it has failed to substantially recover its authorized cost of service.

In advancing its proposed scheme, TransCanada relied upon the fact that the Board has recently approved a variable, monthly cost of service toll scheme for Westcoast and for ANG. The Board is not satisfied that the approval of a monthly variable cost of service toll for those companies provides any reason for applying the same method to TransCanada, given the significant differences between the operations of those companies. Both Westcoast and ANG have operated under agreements which provide for their cost of service to be recovered on a variable monthly basis. In addition, in its September 1979 Reasons for Decision in the Westcoast case, the Board based its decision to permit a variable cost of service toll in part upon the fact that Westcoast faced problems in

forecasting its costs relating to its gathering systems and gas processing plants. TransCanada operates a trunk transmission system with no gathering or processing facilities and is not subject to the same uncertainties in its operations as those faced by Westcoast.

In the Board's view, the most substantial reason against the adoption of TransCanada's proposed scheme is its failure to provide for any effective regulation of the Company's tolls. Except for establishing the rate of return, depreciation rates, and the method of accounting for income taxes, the GSTT Rate Schedule put forward by the Applicant provides for the recovery of its actual costs without any determination of their appropriateness by the Board. Under TransCanada's scheme, there would be no opportunity for scrutiny of its actual cost of service by either the Board or interested parties until after those costs had been incurred and in most cases recovered by the Company. At that time, the Applicant proposes that its cost of service be reviewed by the Board's auditors and that any dispute with respect to those costs, if not settled between the auditors and the Company, be referred to the Board. This appears to exceed the traditional role of the Board's auditors. There is some question as to whether such an approach is workable inasmuch as it involves an element of retroactive rate-making. Moreover, the TransCanada scheme also fails to provide for a review of the costs which are to be deferred from month to month under its scheme. The Company has proposed that these costs be automatically included in its Rate Base and amortized over the subsequent six-month period. The Board is not satisfied that the scheme put forward by TransCanada would either permit effective regulatory control of its cost of service or protect the interests of those parties affected by that cost of service.

Having considered the reasons advanced by the Company, the Board sees no reason to change the existing scheme of regulation. In the Board's opinion, TransCanada's cost of service should continue to be regulated on a forward test year basis authorizing a specific cost of service following a public hearing,

as has been done in the past. The Board appreciates, that, under the existing scheme, any change in the imputed Alberta border price during the test year would result in a change in the gas-related costs included in TransCanada's cost of service. When such changes in the imputed Alberta border price occur, appropriate adjustments to TransCanada's cost of service can be made.

As indicated in the Minister's Policy Statement, prices prescribed under Part III of the PAA will no longer be developed from rates established under Part IV of the NEB Act. This could result in the demand charge component of those prescribed prices no longer equating to the fixed cost component of the Company's authorized cost of service. Should that occur, the Board recognizes that TransCanada may encounter difficulties in recovering its fixed costs, particularly where gas is delivered to distributors at a lower load factor than projected. It is also possible that the difference between the revenues from gas sales and transportation services and the cost of gas at the imputed Alberta border price could be insufficient to permit TransCanada to recover its total authorized cost of service. It is premature at this time to make any judgment as to whether these problems will arise. In the event that they do, however, the Board would be prepared to consider modifying the existing scheme of regulation. Any such modifications, however, would have to provide for adequate regulatory control of TransCanada's cost of service.

CHAPTER 3RATE BASE

TransCanada's proposed rate base, as submitted, was the average projected utility investment (exclusive of Alberta) for the test period 1 July 1981 to 30 June 1982. For the reasons indicated below, the Board has adjusted the test year rate base in the following manner:

Rate BaseTest Year 1 July 1981 to 30 June 1982

	<u>Application</u> ⁽¹⁾	<u>Application</u> ⁽²⁾ <u>As Revised</u>	<u>NEB</u> <u>Adjustments</u>	<u>Authorized</u> <u>by NEB</u>
Gross Plant	\$ 2,175,306,934	\$ 2,129,826,920	\$ (5,601,583)	\$ 2,124,225,337
Accumulated Depreciation	(545,625,642)	(544,749,524)	45,475	(544,704,049)
Contributions in Aid of Construction	<u>(4,616,958)</u>	<u>(4,616,958)</u>	<u>-</u>	<u>(4,616,958)</u>
Net Gas Plant	\$ 1,625,064,334	\$ 1,580,460,438	\$ (5,556,108)	\$ 1,574,904,330
Working Capital	54,456,419	54,734,220	296,726	55,030,946
Average Deferred Income Taxes	(42,324,733)	(42,681,656)	(1,811,814)	(44,493,470)
Other Deferred Costs	<u>(2,392,858)</u>	<u>(2,392,858)</u>	<u>2,312,500</u>	<u>(80,358)</u>
Total Rate Base	<u>\$ 1,634,803,162</u>	<u>\$ 1,590,120,144</u>	<u>\$ (4,758,696)</u>	<u>\$ 1,585,361,448</u>

Notes: (1) Application dated 27 February 1981 as updated by TCPL letter dated 23 June 1981.

(2) Application as revised by TCPL letter dated July 22, 1981 to incorporate various changes based on matters raised during the hearing.

GROSS PLANT

TransCanada projected its gross plant for the test year to be \$2,129,826,920. The Board has adjusted this to \$2,124,225,337, a reduction of \$5,601,583 representing the weighted average of gross plant additions of \$10,489,433 as shown in Table I, Columns 1 and 2.

The adjustments are explained as follows:

(i) Unauthorized Capital Projects

TransCanada included \$5,035,181 as the weighted average gross plant additions in the test year for projects under Class B and C applications which had not yet been authorized by the Board. As the Board does not normally permit the inclusion of unapproved projects in the rate base, the test year rate base has been adjusted to reflect the exclusion of this \$5,035,181 as outlined in Table I.

(ii) Greenhouse Ductwork

As a result of an agreement between TransCanada and the Northern College of Applied Arts and Technology, Lake Campus of Northern College utilizes heat from one of TransCanada's compressor units at Station 105 to assist in the growing of seedling trees in its greenhouse which are used for reforestation purposes in northern Ontario. By the terms of the agreement, Northern College, with financial assistance from the Ontario Department of Northern Affairs, was to construct the greenhouse for which TransCanada was to provide land at the compressor site and install and maintain the ductwork supplying heat to the experimental greenhouse.

In its 1980 Class "C" application, TransCanada included \$71,957 representing the installation cost of the exhaust ductwork. In a letter dated 15 July 1980, the Board indicated to TransCanada that the greenhouse ductwork was not an item that could be included under Class "C" capital expenditures, since this project could not be considered to be a pipeline within the meaning of the Act. The Board, therefore, informed the Company that this capital addition

would be more appropriately recorded in Account Number 110, "Other Plant", of the NEB Gas Pipeline Uniform Accounting Regulations, and that, as such, would not be included in rate base.

The Board remains of the view that this project is not a pipeline within the meaning of the Act. The greenhouse ductwork installation costs have, therefore, been disallowed in the calculation of the test year rate base.

(iii) Allowance for Funds Used During Construction

The Applicant requested a change from the currently-allowed fixed rate for recording AFUDC at the annual rate of return on rate base, to a monthly floating rate applicable to the debt component of AFUDC based on the prior month end prime rate of its bankers, the Canadian Imperial Bank of Commerce and the Royal Bank of Canada. The Applicant submitted that permission to use such rates would allow it to recover the actual costs of financing its construction program. The Applicant indicated that such costs are financed by short-term borrowings, the rates for which are not represented in the unfunded debt component of capitalization.

During the hearing, it was established that a provision had been made for inclusion in the overall capitalization of average GPUC projected to be outstanding during the test year. This inclusion represents a departure from the methodology proposed to calculate return on rate base in previous rate applications. The Board considers, therefore, that adequate provision has been made for the amount of funds applicable to AFUDC. For this reason, it is the Board's decision that the Applicant's annual rate for AFUDC shall be equivalent to the authorized annual rate of return on rate base.

Accordingly, a reduction in the weighted gross plant additions of \$494,445 has been made as a result of the NEB adjustment to TransCanada's plant additions and the change in the rate used to calculate AFUDC.

TABLE I

NEB ADJUSTMENTS TO TRANSCANADA PLANT ADDITIONS

<u>Description</u>	<u>Unweighted Gross Plant Additions (1)</u>	<u>Weighted Gross Plant Additions (2)</u>	<u>Test Year Depreciation (3)</u>	<u>Average Accumulated Depreciation (4)</u>
Class "B" Meter Stations	\$ (786,258)	\$ (281,258)	\$ (9,232)	\$ 7,535
Class "C" Unapproved items	(9,631,218)	(4,753,923)	(138,097)	35,422
Greenhouse Ductwork	(71,957)	(71,957)	(2,518)	2,518
AFUDC	-	(494,445)	-	-
TOTAL	<u>\$ (10,489,433)</u>	<u>\$ (5,601,583)</u>	<u>\$ (149,847)</u>	<u>\$ 45,475</u>

(iv) Aircraft

In its August 1980 Reasons for Decision, the Board approved the inclusion of 50 per cent of the capital cost of TransCanada's two aircraft in its gross plant. In the absence of accurate information concerning the utility and non-utility use of the aircraft, the Board accepted this estimate on the understanding that, in future, records would be kept delineating aircraft use which would then be used in subsequent proceedings to determine the amount of capital costs of the aircraft to be included in rate base.

In its current application, TransCanada has included 65 per cent of the capital cost of its two aircraft in the test year rate base. This projection of utility-related aircraft use was based upon recorded flying time from 1 August 1980 to 31 January 1981.

The Board accepts the inclusion of 65 per cent of the capital cost of the Applicant's aircraft in the test-year rate base.

ACCUMULATED DEPRECIATION

TransCanada projected its average accumulated depreciation for the test year to be \$544,749,524. The Board, having reduced average gross plant by \$5,601,583, has accordingly reduced average accumulated depreciation by \$45,475 as shown in Table 1, Column 4, (Page 3-4).

WORKING CAPITAL

The following table is a summary of the authorized working capital, as adjusted.

	<u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Cash	\$ 9,359,266	\$ (21,502)	\$ 9,337,764
Materials and Supplies	21,917,095	-	21,917,095
Transmission Line Pack	21,595,047	318,228	21,913,275
Prepayments and Deposits	<u>1,862,812</u>	<u>-</u>	<u>1,862,812</u>
	<u>\$ 54,734,220</u>	<u>\$ 296,726</u>	<u>\$ 55,030,946</u>

(i) Cash

The Applicant has included in rate base a cash working capital allowance of one-tenth of its estimate of net operation and maintenance expense for the test year.

The one-tenth factor is consistent with the rate approved in the August 1980 Reasons for Decision, and was further supported by a cash time lag analysis showing a lag of 36.8 days which is approximately one-tenth of a year. The Board, therefore, finds no reason to depart from the method approved in the previous TransCanada rate case.

Adjustments made by the Board to operation and maintenance expense result in an adjustment to cash working capital allowance calculated as follows:

Net Operation and Maintenance Expense (per Applicant)	\$93,592,655
Reduction in Salaries and Benefits	<u>(215,013)</u>
Net Operation and Maintenance Expense (per NEB)	<u>\$93,377,642</u>
1/10 of Net Operation and Maintenance Expense (per NEB)	\$ 9,337,764
1/10 of Net Operation and Maintenance Expense (per Applicant)	<u>9,359,266</u>
NEB ADJUSTMENT	<u>\$ (21,502)</u>

(ii) Transmission Line Pack

At the conclusion of the hearing, the Applicant revised the projected average value of transmission line pack to \$21,595,047 for the test year, based on an imputed Alberta border price of 167.691¢/GJ.

The Board has adjusted transmission line pack to reflect the new imputed Alberta border price of 170.162¢/GJ resulting in an increase of \$318,228. The derivation of the new imputed Alberta border price is provided in Chapter 7.

AVERAGE DEFERRED INCOME TAXES

The average deferred income tax balance, which is deducted in arriving at the allowed total rate base, is the average of the opening and the closing deferred tax balances for the test period. It will continue to be computed in the following manner:

2 x	beginning deferred tax balance	+	deferred taxes for the test period
-----	-----------------------------------	---	---------------------------------------

2

The beginning deferred tax balance of \$30,592,000 was not at issue in the current proceeding and is accepted by the Board. The deferred taxes for the test year will be calculated by multiplying the tax rate by the net of the timing differences relevant in computing taxes payable on the applied-for "stand-alone" basis. These differences are shown below:

	APPLICATION AS REVISED	PER NEB
Depreciation	\$ 64,374,773	\$ 64,224,926 ⁽¹⁾
Capital Cost Allowance	(107,512,000)	(105,812,937) ⁽¹⁾
Overhead Capitalized	(3,370,000)	(3,370,000)
Non-Allowed Amortization of Debt Discount and Expense	265,000	265,000
Financing Costs	(2,380,000)	(2,380,000)
Interest AFUDC	-	(8,577,388) ⁽²⁾
Net Timing Differences	<u>(48,622,227)</u>	<u>\$ 55,650,399</u>

(1) Reflects Board Decisions regarding Rate Base.

(2) Reflects information set out in Exhibit 133, adjusted by the Board to take into account the Rate of Return actually allowed.

The tax rate of 49.96 per cent was not at issue in this Hearing and is accepted by the Board.

INTEREST AFUDC

This item represents interest expense estimated to be incurred in respect of test-year construction activities which the Company capitalizes for accounting and rate-making purposes but expenses currently for income tax purposes.

The Company took the position that under the equity method of calculating income taxes no deduction should be made in respect of this item in computing deferred income taxes for the test year. In support of its position, the Company looked to the language appearing at page 4-17 of the Board's August 1980 Reasons for Decision which characterized the equity method for calculating income taxes as "being essentially based on the common equity return without taking into account interest expense not recovered in the return on rate base or other expenses allocated to non-utility activities and not recovered in the cost of service".

Apparently, based on this line of argument, TransCanada felt that "interest AFUDC" fell into the category of non-utility items by virtue of the fact that it represents an interest cost which will not be recovered currently in the cost of service.

The Company's witness acknowledged, however, that this cost will be collected in the costs of service of future years through plant depreciation charges.

In the Board's view, "interest AFUDC" is clearly a utility-associated cost, and, therefore, its current deductibility for tax purposes should have the customary effect of reducing rate base and hence the return and income tax components of the total allowed cost of service. Accordingly, the Board has decided that "interest AFUDC" will be reflected as a timing difference in the calculation of the average deferred tax balance.

Based on the foregoing, the average deferred tax balance for the test year is computed below.

$$\begin{aligned}
 & \frac{(2 \times \$30,592,000) + (\$55,650,399 \times .4996)}{2} \\
 = & \frac{\$61,184,000 + \$27,802,939}{2} \\
 = & \frac{\$88,986,939}{2} \\
 = & \underline{\underline{\$44,493,470}}
 \end{aligned}$$

OTHER DEFERRED COSTS

An amount of \$2,312,500 will be added to rate base in the test year. This represents one-half of the estimated unamortized balance of the deferral, including carrying charges at 1 September 1981, resulting from the implementation of the Special Canadian Ownership Charge and the increase in the Excise Tax. For a discussion of the amounts deferred and associated carrying charges, see Chapter 5.

CHAPTER 4
RATE OF RETURN

DEEMED CAPITAL STRUCTURE

TransCanada has applied for a rate of return on rate base of 12.96 per cent. This rate of return was based on a deemed average capitalization which was equated to the average utility rate base inside and outside Alberta plus GPUC projected to be outstanding during the test year.

The applied-for deemed average capitalization, as revised, in conjunction with its individual and overall requested rates of return, is shown below.⁽¹⁾

	<u>Amount</u> <u>(\$000)</u>	<u>Ratio</u> <u>%</u>	<u>Cost</u> <u>Rate</u> <u>%</u>	<u>Cost</u> <u>Component</u> <u>%</u>
Debt-Funded-Outstanding	\$ 699,523	39.55	8.94	3.54
-Proposed	302,014	17.07	16.03	2.74
Unfunded	<u>101,638</u>	<u>5.75</u>	<u>16.50</u>	<u>0.95</u>
TOTAL DEBT CAPITAL	\$1,103,175	62.37	11.59	7.23
Preferred Share Capital				
-Outstanding	\$ 84,907	4.80	7.30	0.35
-Proposed	50,000	2.83	12.38	0.35
Common Equity	<u>530,607</u>	<u>30.00</u>	16.75	<u>5.03</u>
	<u>\$1,768,689</u>	<u>100.00</u>		<u>12.96</u>

The applied-for deemed average capitalization reflects:

- (a) the amounts and costs of actual outstanding preferred equity and long-term funded debt issues sold prior to TransCanada's major expansion into non-utility fields, specifically designated issues sold in 1980-81 and proposed test-year utility related issues;

(1) In keeping with the Board's prior Rate Decisions, the Company excluded security issues used to finance its "take or pay" obligations under its gas purchase contracts.

- (b) a deemed 30 per cent common equity component; and
- (c) an imputed unfunded debt component to balance the capital structure with the rate base plus GPUC.

In the current application, as in the 1980 Rates Application, TransCanada submitted that a deemed capitalization approach should form the basis for the determination of the allowed rate of return on rate base. TransCanada also asserted that the applied-for deemed capital structure was consistent with the business risks of the pipeline operation, that it was consistent with its position on the amount of income tax to be collected in the cost of service⁽¹⁾ and that this procedure had insulated the ratepayers from the capital costs of diversification.

The Board agrees that the deemed capital structure approach is necessary in order to ensure that the ratepayers are insulated from the capital costs associated with TransCanada's diversification program. The Board, therefore, approves the use of a deemed capital structure for the test year. It also approves the deemed equity ratio of 30 per cent for the reasons set forth in this Chapter.

The components of the applied-for deemed capital structure, together with the various individual cost rates, are discussed below.

INCLUSION OF GPUC IN CAPITALIZATION

TransCanada applied to have the deemed average capitalization for rate-making purposes equal to average utility rate base plus GPUC projected to be outstanding during the test year.

Witnesses for the Applicant contended that GPUC should be included in determining the capitalization since it formed part of the capital requirements of the utility operations and that the inclusion was necessary in order to permit the Company to recover the costs of financing this activity.

(1) See Chapter 5 - Allowable Cost of Service, Income Taxes

One intervenor argued that, if GPUC was included in determining the capitalization, there was no need for an accounting order allowing TransCanada to calculate AFUDC at the Bank of Canada prime rate plus one per cent.

In accordance with the Board's decision to authorize the annual rate for AFUDC at the annual rate of return on rate base,⁽¹⁾ the Board approves the inclusion of GPUC in the amount of \$130,045,000 as applied for by TransCanada in determining the deemed average capitalization for rate-making purposes.

DEBT

(i) Funded Debt

The funded debt component of the deemed capitalization represents the average principal of debt capital associated with utility investments projected to be outstanding during the test year. The outstanding portion of the funded debt incorporates all of the Company's existing first mortgage pipeline bonds, sinking fund debentures, and subordinated debentures which, because it is older debt, carries a relatively lower cost. This debt is unassociated with the Company's current diversification program. The embedded cost rate computation for the outstanding funded debt is shown in Appendix V of this decision.

The proposed portion of the funded debt incorporates the weighted average balance of the new issue of first mortgage pipeline bonds to be outstanding during the test year. The computation of the cost rate of this debt is shown in Appendix VI of this decision.

The cost rate for the outstanding and proposed funded debt has been computed in the same manner as that used in the 1980 proceeding. The Board accepts the applied-for outstanding and proposed cost rates of 8.94 and 16.03 per cent respectively.

(1) See Chapter 3 - Rate Base, Allowance for Funds Used During Construction.

(ii) Unfunded Debt

Unfunded debt is the difference between the total utility capitalization and the aggregate of the funded debt and preferred and common equity components. The Company's applied-for unfunded debt has been imputed with a cost rate equivalent to the forecasted long-term borrowing rate of 16.50 per cent. The Board, in its August 1980 Reasons for Decision, allowed the Company to use a long-term borrowing rate for its unfunded debt. The estimated rate for unfunded debt was not contested in the proceedings. Accordingly, the Board accepts the applied-for cost rate of 16.50 per cent.

PREFERRED EQUITY

The applied-for preferred share capital represents the average stated capital of preferred share issues associated with utility investments projected to be outstanding during the test year. The applicable cost rate was calculated in a manner consistent with prior applications. Therefore, the Board accepts the applied-for cost rates of 7.30 and 12.38 per cent in the test year for the respective outstanding and proposed preferred share issues.

COMMON EQUITY

(i) Deemed Common Equity Ratio

A key element in the determination of a deemed capital structure for rate-making purposes is the selection of an appropriate common equity ratio which insulates the ratepayers from the capital cost of diversification and is consistent with the business risks of TransCanada's pipeline operations.

The Company contended that since there had been virtually no change in business risks since the 1980 hearing, there was no cause to change the 30 per cent deemed common equity component which had been found appropriate for rate-making purposes at that time.

A witness for the Company testified that an optimal capital structure does not necessarily remain constant over time

but that at this time, the deemed common equity component of 30 per cent is appropriate for the utility based on its existing business risks and projected capital expenditure programs.

The Company also argued that a balanced capital structure had been maintained, that diversification had not adversely affected the debt ratings of TransCanada and that the ratepayers had been and will continue to be insulated from the capital costs associated with diversification.

The intervenors did not contest the use of or the need for a deemed capital structure and did not challenge the Company's evidence that the 30 per cent deemed common equity ratio was appropriate for the pipeline operation based on its existing business risks.

No evidence was found to show that the ratepayers had been adversely affected by diversification or that the applied-for common equity ratio was not representative of the business risks of the pipeline operation.

Based on the evidence submitted, the Board finds that 30 per cent of the deemed capital structure is an appropriate common equity ratio for the test year.

(ii) Rate of Return on Common Equity

TransCanada applied for a rate of return on common equity of 16.75 per cent. The Company supported this request by placing primary emphasis on the following considerations:

- (1) the higher achieved and prospective returns of individual companies of similar risk to TransCanada's utility operations;
- (2) the rise in the cost of attracting capital as evidenced by the sharp rise in interest rates and the uncertainty of a significant and sustained decline in their levels; and
- (3) the necessity of providing a reasonable risk premium in relation to a longer term, normalized interest rate.

The Company witnesses relied primarily on the comparable earnings test to measure the cost of common equity. One expert witness however, placed partial reliance on the DCF technique,

adjusted from the "bare bones" approach, to provide the potential for a desirable market-to-book ratio.

A witness for the Company concluded that the 1982 returns of Canadian industrials having investment risks similar to those of TransCanada's utility operations will be in the range of 16 to 17 per cent and favoured a rate closer to the upper limit of that range based on the inference that in 1982 the economy should experience a faster recovery.

CPA's expert witness recommended a rate of return on common equity of 15.0 to 15.5 per cent based on the DCF method applied to a group of non-regulated industrials selected on the basis of investment risks similar to those of TransCanada.

The Board observed that expert witnesses for both the Company and CPA recommended rates of return on common equity which are 75 basis points higher than their respective rates of return recommended in the 1980 rate proceedings. The Board accepts the view expressed by one Company witness that interest rates will remain high at least in the short term in line with a prospect of continuing high inflation. Having regard to all of the evidence presented the Board finds 15.75 per cent to be a fair and reasonable rate of return on the allowed 30 per cent deemed common equity ratio.

RATE OF RETURN ON RATE BASE

Based upon its findings in this case, the Board has decided that a rate of return on rate base of 12.63 per cent is fair and reasonable. The derivation of this rate of return is presented in the deemed capital structure below:

	<u>Amount</u> <u>(\$000)</u>	<u>Ratio</u> <u>%</u>	<u>Cost</u> <u>Rate</u> <u>%</u>	<u>Cost</u> <u>Component</u> <u>%</u>
Debt-Funded-Outstanding	\$ 699,523	39.62	8.94	3.54
-Proposed	302,014	17.11	16.03	2.74
Unfunded	<u>99,546</u>	<u>5.63</u>	16.50	<u>.93</u>
TOTAL DEBT CAPITAL	\$1,101,083	62.36	11.56	7.21
Preferred Share Capital				
-Outstanding	84,907	4.81	7.30	.35
-Proposed	50,000	2.83	12.38	.35
Common Equity	<u>529,710</u>	<u>30.00</u>	15.75	<u>4.72</u>
TOTAL CAPITALIZATION	<u>\$1,765,700</u> (1)	<u>100.00</u>		<u>12.63</u>

	<u>(\$000)</u>
(1) Rate Base Outside Alberta (Chapter 3, Page 3-1)	\$1,585,361
Alberta Rate Base	50,294*
Gas Plant Under Construction	<u>130,045</u>
RATE BASE PLUS GAS PLANT UNDER CONSTRUCTION	<u>\$1,765,700</u>

* Reflects changed imputed Alberta Border Price.

CHAPTER 5
TRANSPORTATION COST OF SERVICE

TransCanada submitted its estimated cost of service for a test year commencing 1 July 1981 and revised its estimate at the conclusion of the hearing.

A summary of the transportation cost of service as authorized by the Board is shown below. Details of Board adjustments to transportation cost of service (excluding return) are also provided in this Chapter, whereas details of Board adjustments to rate base and rate of return are provided in Chapters 3 and 4, respectively.

Transportation Cost of Service
Test Year 1 July 1981 to 30 June 1982

	<u>Application</u> ⁽¹⁾	<u>Application</u> ⁽²⁾ <u>As Revised</u>	<u>NEB</u> <u>Adjustments</u>	<u>Authorized</u> <u>by NEB</u>
Transmission by Others	\$ 139,372,192	\$ 123,080,488	\$ 362,661	\$ 123,443,149
Operation and Maintenance	244,776,219	242,411,443	5,275,140	247,686,583
Depreciation	65,803,584	64,374,773	(149,847)	64,224,926
Taxes Other than Income Taxes	20,544,932	19,891,932	-	19,891,932
Income Taxes	86,604,724	83,396,049	(5,649,526)	77,746,523
Miscellaneous Deferred Items	<u>(995,577)</u>	<u>(995,577)</u>	<u>-</u>	<u>(995,577)</u>
Total Cost of Service (Excluding Return)	\$ 556,106,074	\$ 532,159,108	\$ (161,572)	\$ 531,997,536
Return @ 13.09%	213,995,734			
Return @ 12.96%		206,079,571	(206,079,571)	-
Return @ 12.63%			<u>200,231,151</u>	<u>200,231,151</u>
Net Cost of Service ⁽³⁾	<u>\$ 770,101,808</u>	<u>\$ 738,238,679</u>	<u>\$ (6,009,992)</u>	<u>\$ 732,228,687</u>

Notes: (1) Application dated 27 February 1981 as updated by TCPL letter dated 23 June 1981.

(2) Application as revised by TCPL letter dated July 22, 1981 to incorporate various changes based on matters raised during the hearing.

(3) Excludes Cost of Gas Sold.

TRANSMISSION BY OTHERS

TransCanada projected its cost of transmission by others for the test year to be \$123,080,488. The Board has adjusted this to \$123,443,149, as shown in the following summary.

	<u>Application Final Revision</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Great Lakes:			
(a) Basic Charges	\$173,447,393	\$ -	\$173,447,393
(b) Fuel Adjustment	(51,284,338)	357,260	(50,927,078)
Union Gas	3,968,150	-	3,968,150
Deferral Adjustment	(3,089,117)	-	(3,089,117)
Steelman Gas	38,400	5,401	43,801
	<u>\$123,080,488</u>	<u>\$362,661</u>	<u>\$123,443,149</u>

The adjustments shown in the preceding summary are explained as follows:

(i) Great Lakes Fuel Adjustment

Under the pricing régime established pursuant to Part III of the PAA, fuel used in the transmission of gas through the Great Lakes system is purchased by TransCanada at the imputed Alberta border price. Because such fuel is sold to Great Lakes at the export price, TransCanada receives revenues in excess of the costs allocated to such fuel, amounting to the excess of the export price over the sum of the imputed Alberta border price plus the transmission costs on its system from the Alberta border to the export point. To offset these excess revenues, an equal amount, referred to as the "Great Lakes Fuel Adjustment", is deducted from transmission by others in the cost of service.

The Board has made an adjustment of \$357,260 to take into account the effect of the new imputed Alberta border price of 170.162¢/GJ.

(ii) TQ&M Cost of Service

TransCanada requested approval of the deferral method so that it could recover all costs associated with deliveries of gas at Boisbriand, in the event that a scheme of regulation different from that proposed by TransCanada is approved. No provision was made in the revised application for costs of transmission by TQ&M because of uncertainty as to whether any sales would be made off the TQ&M system during the test year.

In consideration of this matter, the Board believes that the most reasonable assumption is that Certificates GC-64 and GC-65 will be transferred to TQ&M. In these circumstances, the Board considers it appropriate to extend the existing deferral provisions for Transmission by Others to include the tolls charged by TQ&M to TransCanada for transmission services. TransCanada shall record in a deferral account the difference between the tolls charged by TQ&M and such amounts recovered by TransCanada from its net revenues which will be available to pay TQ&M's charges. The latter amount shall be calculated by subtracting from the revenue from the sale of gas to Gaz Métro at Boisbriand, the aggregate of:

1. the imputed Alberta Border price, and
2. the incremental cost of transporting that gas on the Applicant's pipeline, calculated at $\$11.035/10^3\text{m}^3$, which is equivalent to the transportation toll applicable to export sales to Vermont Gas Systems, Inc. near Philipsburg, Quebec, which, in the Board's view, is a reasonable estimate of the incremental cost of transporting these volumes.

The deferred amount plus carrying charges calculated monthly at one-twelfth of the authorized annual rate of return on rate base should be submitted to the Board in the next rate hearing for disposition at that time.

(iii) Steelman Gas

The Board's adjustment of \$5,401 to the Applicant's calculation of the test-year transportation costs for gas purchased from Steelman Gas was necessary in order to reflect the approved transportation costs on the Applicant's system.

OPERATION AND MAINTENANCE

Adjustments made by the Board to operation and maintenance expense have resulted in a net increase of \$5,275,140 as follows:

	<u>Adjustment</u>
Lost and Unaccounted for Gas	\$ (270,618)
Cost of Gas Used in Operations	1,438,573
Salaries and Employee Benefits	(215,013)
Loss on Revaluation of Transmission Line Pack Gas	(302,802)
Amortization of Amount Deferred Relating to Special Canadian Ownership Charge and Excise Tax	<u>4,625,000</u>
Total Adjustment	<u>\$ 5,275,140</u>

(i) Lost and Unaccounted for Gas

In its August 1980 Reasons for Decision, the Board authorized 0.1 per cent of the projected test year measured input into the TransCanada pipeline system as the allowance for lost and unaccounted for gas during the test year. In the current application, TransCanada applied for a volume of $55.8 \times 10^6 \text{m}^3$ or 0.13 per cent of projected test year measured input, as its forecast for lost and unaccounted for gas during the test year. This forecast was based upon the average lost and unaccounted for gas from the TransCanada pipeline system experienced over calendar year 1980.

Since 1977 the Company has taken steps to reduce the high gas losses it experienced in the years leading up to and including 1976. Since that time the situation has improved as demonstrated in the Table below which details the average gains or losses realized over the past five years.

AVERAGE ANNUAL GAINS OR LOSSES OF LOST AND UNACCOUNTED FOR GAS

<u>Calendar Year</u>	<u>Percent of Measured Input</u>
1976	0.76
1977	0.30
1978	(0.05)
1979	0.1
1980	0.13

The Board expects that TransCanada, by continuing its present program of improving metering capability and metering maintenance practices, should maintain its average level of gas losses. On the basis of recent experience, therefore, the Board believes an appropriate allowance for lost and unaccounted for gas is 0.12 per cent of measured input. As a result the cost of service will be reduced as follows:

	<u>10⁶m³</u>	<u>GJ(1)</u>	<u>Amount at imputed Alberta border price of 167.691¢/GJ</u>
Submitted by the Applicant	55.8	2,094,174	\$3,511,741
As amended by the Board	51.5	1,932,795	<u>3,241,123</u>
		Adjustment	<u>\$(270,618)</u>

(1) Calculated at 37.53 mJ/m³

(ii) Cost of Gas Used in Operations

The Applicant's forecast cost of gas used in operation was \$91,708,055 excluding lost and unaccounted for gas, based on its revised imputed Alberta border price of 167.691 cents per gigajoule.

The Board is satisfied that TransCanada's fuel consumption forecast is reasonable.

The Board has adjusted the following costs to reflect its findings of an imputed Alberta border price of 170.162 cents per gigajoule rather than 167.691 cents per gigajoule.

	<u>NEB Adjustments</u>
Cost of Gas Used in Operations including Lost and Unaccounted for Gas	\$1,399,546
Sales Tax on Compressor Fuel	<u>39,027</u>
Total Adjustment	<u>\$1,438,573</u>

(iii) Salaries and Employee Benefits

The Applicant, in its estimate of test year salaries, provided for an increase of 11.5 per cent in 1981 and 13 per cent in 1982. These escalation factors were determined in relation to expected increases in the cost of living and to wage settlements in competing industries. TransCanada also presented a comparative analysis of the competitive structure of its employees' wages and salaries with those of a number of surveyed firms.

TransCanada had 1,477 staff positions during the base year. For the test year, the Company included a provision to add to its staff positions 40 new employees and detailed the reasons for each addition. As well, TransCanada projected, based on an historical average, 40 vacant positions distributed among its staff over the test year.

With respect to employee benefits, the Applicant projected cost increases due to increased participation of employees in different programs, to increases in salary rates and to increases in staff. TransCanada, however, did not propose improved benefits under its retirement plan.

The Board accepts TransCanada's arguments for 1981 escalation factor of 11.5 per cent, staff additions, and cost of benefits.

It is the Board's view that TransCanada did not provide adequate justification for the 13 per cent salary escalation factor proposed for 1982. One major union in the energy sector, the Energy and Chemical Workers' Union, negotiated a settlement at 12 per cent for 1982. The Board, therefore, believes that salary increases of 12 per cent for 1982 would allow the Company to offer competitive salaries. As a result of this reduction in the escalation factor, the test year allowance for salaries and benefits has been reduced by \$215,013.

(iv) Loss on Revaluation of Transmission Line Pack Gas

TransCanada added to operation and maintenance expense an amount of \$1,209,990, which represents its estimate of the loss as at 1 July 1981 on the revaluation of transmission line pack gas. This loss was based on TransCanada's estimate of the imputed Alberta border price of 167.691¢/GJ at 1 July 1981.

Having determined the imputed Alberta border price to be 170.162¢/GJ, the Board has adjusted operation and maintenance expense by the amount of \$302,802 to reflect the loss of \$907,188 at 1 September 1981.

(v) Special Canadian Ownership Charge on Company Used Gas (Effective 1 May 1981) and the Increase in the Excise Tax (Effective 1 July 1981)

In a letter to the Board dated 28 April 1981, TransCanada requested approval to use NEB account 179 (Other Deferred Debits) to defer the variance resulting from the implementation of the Special Canadian Ownership Charge and the increase in the Excise Tax. On 30 April 1981, in a letter to TransCanada, the Board gave approval to this accounting treatment and informed the Company that the disposition of the deferred balance for rate-making purposes, including the appropriate rate to be used for calculating carrying charges would be examined at the next rate hearing.

(a) Deferred Amount

The Applicant proposed that the amount of the variance resulting from the implementation of the Special Canadian Ownership Charge effective 1 May 1981, and the increase in the Excise Tax effective 1 July 1981 together with carrying charges should be amortized to cost of service effective 1 July 1981, or on such later date as new rates are made effective.

The Board believes that an amount of \$4,625,000 is a reasonable approximation of the deferred balance including carrying charges at 1 September 1981. This amount will be included in the test year cost of service. One-half of the unamortized deferred balance to be amortized during the year commencing 1 September 1981 will be added to rate base.

(b) Carrying Charges

TransCanada proposed that the carrying charges on the deferred amount should be calculated at the average of the prime rates afforded by its banks, the Canadian Imperial Bank of Commerce and the Royal Bank of Canada. The Applicant noted that provisions for both the Special Canadian Ownership Charge, effective 1 May 1981, and the Excise Tax effective 1 November 1980 and 1 July 1981

have been included in the authorized transportation cost of service, and, therefore, only deferred amounts for the period from 1 May 1981 to 31 August 1981 would be subject to the requested rates.

Because the introduction of these charges by the Federal Government could not have been foreseen by and are beyond the control of TransCanada, the Board has decided that carrying charges should be allowed on these deferred amounts for the period May, June, July and August 1981. These carrying charges shall be calculated at the average of the prime rates of the Canadian Imperial Bank of Commerce and the Royal Bank of Canada during that period.

(c) Accounting Treatment

Further to the Board's accounting directive dated 30 April 1981 with respect to the amounts deferred resulting from the implementation of the Special Canadian Ownership Charge effective 1 May 1981 and the increase in the Excise Tax effective 1 July 1981, TransCanada is required to record carrying charges on the deferred balances up to 31 August 1981 at the monthly average of the prime rates of its banks, the Canadian Imperial Bank of Commerce and the Royal Bank of Canada during that period.

The actual amount deferred during the period including carrying charges will be amortized in equal amounts over a twelve-month period commencing 1 September 1981.

DEPRECIATION

Depreciation of fixed assets, as revised, was included in cost of service at rates previously authorized by the Board. The amount projected by the Applicant has been reduced by \$149,847 to reflect the removal by the Board from rate base of various items of gross plant, as shown in Table I, Column 3 (Page 3-4).

INCOME TAXES(i) Normalized versus Flow-Through Method of Calculating Income Taxes

In its current application, the Company has requested that its tax allowance be calculated on a normalized basis consistent with the three previous TransCanada Rate Decisions of this Board.

CPA and IPAC, while voicing their continued belief that a régime of flow-through taxes would be more appropriate in TransCanada's case, chose not to re-argue the matter. Rather, both intervenors essentially took the position that a reversion to flow-through taxes would constitute an indirect means of alleviating the anticipated adverse impact upon producers of various economic developments including the eastward expansion of the TransCanada system and certain features of the National Energy Program. IPAC went on to point out that various events upon which the producers' concern was predicated have yet to occur or be incorporated in legislation.

Accordingly, the Board does not consider that any significant change in circumstances has occurred which would warrant a re-examination of the normalized versus flow-through tax question at this time.

(ii) "Stand-Alone" Approach to Computing Income Taxes

In its 1980 Rates Application, TransCanada, having embarked upon a substantial investment program unrelated to its jurisdictional utility operations, requested that the normalized tax allowance to be included in its cost of service reflect only those items of revenue and expense which it considered applicable to its utility operations.⁽¹⁾ As a matter of terminology, this applied-for approach was said to be of a "stand-alone" nature and was embodied in the so-called equity method of calculating income taxes. This approach was accepted in a majority decision of the Board, on the basis of evidence put forward at that time.

(1) As an extension of this request, TransCanada also submitted that the average deferred tax balance to be deducted from rate base be calculated on a "stand-alone" basis. The Board accepted this approach as it did that pertaining to normalized taxes.

By a letter to TransCanada dated 19 June 1981, the Board expressed the desire to give further consideration to the issue of whether the provision for income taxes should be calculated on the "stand-alone" basis or whether, and to what extent, the provision for income taxes in the cost of service might take into account the tax position of the corporation as a whole.

The issue at hand centers essentially on the fact that TransCanada has available to it tax deductible expenses⁽¹⁾ which are associated with its non-utility activities and which can be used by the Company at this time to offset revenues derived from its utility operations in computing the income taxes payable by it as a corporation. This occurs because the Company's non-utility activities basically comprise investments in the shares of other corporations, the dividend income from which is not subject to tax in TransCanada's hands. Thus, in filing its tax return, TransCanada, through the application of such expenses to revenues derived from its pipeline operations, may reduce the taxes actually paid by it as a corporation below that level collected from ratepayers on a "stand-alone" basis.

In response to the Board's notice, TransCanada reaffirmed the position it took in the 1980 proceedings, arguing that the ratepayer should neither bear the costs nor enjoy the benefits associated with its non-utility activities. The Company continued to assert that measures had been taken, and were in place, (eg. a deemed capital structure and divisionalized accounting for overhead costs) which effectively insulated the ratepayer from the costs of diversification and, therefore, that it would be inequitable for the ratepayer to receive any of the diversification benefits. The Company expanded upon this position by putting forward several specific arguments including the following:

(1) These fall primarily into three categories: interest expense incurred to finance non-utility investments; Canadian Exploration and Development Expenses renounced to TransCanada by its subsidiary TCPL Resources; and various overhead costs allocated to non-utility activities.

- where costs are not recoverable in the Company's tolls and it would be inequitable for the ratepayer to receive the benefit of the associated tax deduction without at the same time being required to pay the underlying cost;
- to accept the applied for "stand-alone" approach would simply place the ratepayers in the same position as they would have been had no diversification taken place;
- the appearance that the cost of service tax allowance may be too high is nothing more than that, provided one chooses to look through the intercorporate investment to consider the expenses incurred by the investing company as having been incurred by the investee and as having the present or future potential of reducing that entity's taxable income;
- to reduce the cost of service tax allowance through the use of such expenses would be inequitable in that the ratepayer could receive a benefit only at the expense of the shareholder; and
- since a stand-alone approach has been adopted for all of its other costs, to take a non-"stand-alone" approach with respect to income tax costs would be inconsistent and require a wholly arbitrary approach in deciding the quantum of non-utility associated tax deductions to be reflected in the cost of service tax calculation.

While the term "stand-alone" as typically used by TransCanada refers to a separation as between its utility and non-utility activities of costs which are of a relatively tangible and allocable nature, the evidence presented during the course of the hearing made clear the fact that the non-utility activities benefit from the existence of the utility because:

- the Company's jurisdictional pipeline operations provided a base which served to enable or facilitate the financing of its non-utility ventures; and
- the Company's jurisdictional pipeline operations in fact provide the essential revenue stream against which the non-utility tax deductions are applied, thus giving value to those deductions by assuring their early recovery.

Both of the preceding factors point to the existence of a synergistic effect created by combining utility and non-utility operations in a single corporation. To this extent, they also demonstrate that the relative position of the non-utility operations might be substantially less favourable had they been undertaken directly in separate corporations rather than through the medium of intercorporate investments chosen by TransCanada.

Nevertheless, it is the Board's view that the evidence presented indicates that the ratepayers are effectively insulated from the cost effects of the Company's non-utility activities at the present time. Given that the costs of non-utility operations are not borne by the utility, given that no satisfactory method of the utility sharing in the "synergy" has been placed in evidence and tested, and given that no adverse impact of the stand-alone concept on the utility is apparent at this time, it is the Board's view that, on balance, the equitable resolution of this issue lies in the acceptance of the Company's approach. The Board has decided, therefore, to compute the normalized tax allowance on the applied-for "stand-alone" basis.

(iii) Non-Allowed Amortization of Debt Discount and Expense

In computing normalized taxable income for the test year, the Company deducted as a permanent difference an amount in respect of "non-allowed amortization of debt discount and expense". This item is actually a composite of several numbers having to do with the debt capital related costs of the utility. During cross-examination, the Company's witness agreed that an amount of \$500,000 in relation to "bond premium adjustment" should be reflected as a deduction in the computation of the composite permanent difference in question. However, in final argument, counsel for the Applicant asserted that the \$500,000 "bond premium adjustment" pertained to non-utility activities and should not be reflected in the utility tax calculation. Despite this assertion, the record shows clearly that the "bond premium adjustment" was related to the Company's first mortgage pipeline bonds (which formed part of the applied-for deemed utility capitalization) and was applied by the Company to reduce the amount of interest expense collected in the utility's tolls below that actually available to the utility for tax purposes. In the Board's view, this item pertains to the utility operations and as such should be reflected in the utility tax calculation. Accordingly, the Board has adjusted the item "non-allowed amortization of debt discount and expense" to reflect the \$500,000 of "bond premium adjustment".

The Board's findings in respect of income tax matters are reflected in the calculation set forth below. This calculation also incorporates the Board's decisions in respect of the rate base and rate of return areas.

Normalized Income Taxes for the Test Year

	APPLICATION AS REVISED	PER NEB	
Operating Income	<u>\$206,079,571</u>	<u>\$200,231,151</u>	
Equity Component of Operating Income	\$ 91,113,884	\$ 85,926,591	
Permanent Differences:			
Eligible Capital Expenditures	(103,827)	(103,768)	(1)
Non-allowable amortization of debt discount and expense	(6,887,520)	(7,368,250)	(1)
Capital Gains	2,972,499	2,970,818	(1)
Inventory Allowance	(646,804)	(639,833)	(1)
Preferred Share Issue Costs	<u>(2,921,984)</u>	<u>(2,917,656)</u>	(1)
 NORMALIZED AFTER TAX INCOME	 <u>\$ 83,526,249</u>	 <u>\$ 77,867,902</u>	
INCOME TAX THEREON (at 49.96%)	<u>\$ 83,396,049</u>	<u>\$ 77,746,523</u>	

(1) Minor differences are due to a slight alteration in the Alberta allocation factor arising from Board adjustments to rate base and the change in the imputed Alberta border price.

CHAPTER 6
TOLL DESIGN AND OTHER TARIFF MATTERS

T-SERVICE TRANSMISSION TOLLS

In the past the toll for T-Service has been designed so that the charges under the T-Rate Schedule plus the imputed Alberta border price would be equal to the charges under the CD-Rate Schedule when adjusted for fuel supplied by the Shipper under the T-Rate Schedule. TransCanada proposed that this procedure be continued. The Board accepts TransCanada's proposal. The calculation of the approved toll is shown in Appendix VIII.

OTHER TRANSPORTATION TOLLS

TransCanada proposed that, in the initial implementation of the proposed new scheme of regulation, the tolls for the transportation of export gas and for transportation services performed for others be retained unchanged except for the tolls for Consolidated and Sulpetro. The existing tolls for the transportation of gas from Empress to points on the international border for Consolidated and Sulpetro had been established on an incremental basis subsequent to the issuance of the Board's Order RH-2-80. TransCanada proposed that the tolls for transportation services rendered to Consolidated and Sulpetro be adjusted to a basis consistent with tolls previously established for similar transportation services.

During the course of the hearing, TransCanada was requested to describe those principles which could govern a scheme for regulating transportation tolls in the period following the initial implementation of the proposed new scheme of regulation. In response to this request, TransCanada filed an alternative method which employed an adjustment to the existing tolls based on the fixed and variable costs approved by the Board for the test year.

The Board accepts TransCanada's proposal that the tolls for service rendered to Consolidated and Sulpetro should be consistent with the tolls established for similar transportation services.

It is the view of the Board that the tolls for transportation service rendered by TransCanada in the test year should reflect the increased cost of transmission approved by the Board. In the circumstances of this application the Board has determined that the most appropriate method for adjusting the existing transportation tolls would be by adopting the alternative method filed by the Applicant during the course of the hearing. The Board recognizes, however, that over time this method could result in a significant departure from cost-based tolls and a resulting over-recovery of costs by TransCanada, and that other methods of deriving transportation tolls may be more appropriate in the future.

The approved tolls and the calculation thereof are set out in Appendix VIII.

OTHER TARIFF MATTERS

TransCanada proposed a revision to Sheet No. 20 of the General Terms and Conditions of its Tariff to include the Boisbriand Delivery Point on the TQ&M system in the Eastern Delivery Area. In addition TransCanada updated the maps included in its Tariff. The Board finds such revisions to the Applicant's Tariff to be appropriate.

During the hearing TransCanada filed revisions to its Gas Sales Tariff Sheets to reflect the anticipated change from three-part rates to two-part rates. It is the Board's view that such a change should not be made at this time but could more appropriately be made at such time that the Minister may prescribe two-part prices. Accordingly the proposed revisions to the Gas Sales Tariff Sheets are disallowed.

CHAPTER 7
COST OF GAS

TransCanada projected its gas-related transmission costs based on an imputed Alberta border price of 167.691¢/GJ, calculated in accordance with the formula provided in the Minister's Policy Statement on Natural Gas Pricing, dated 14 April 1981 (see Appendix IX). In its determination of the authorized transportation cost of service, the Board has used the same formula to calculate the imputed Alberta border price for gas used in transmission operations. In the event that the price for gas is different on or after 1 September 1981 from that reflected in the authorized transportation cost of service, the Board would make appropriate adjustments at that time.

The Board's calculation of the imputed Alberta border price of 170.162¢/GJ is set out below, together with an explanation of various adjustments made by the Board for the purpose of that calculation.

	<u>Application As Revised</u>	<u>Per NEB</u>
Total Revenues	\$3,460,285,266	\$3,465,412,569
Export Flowback	<u>(830,734,735)</u>	<u>(814,002,725)</u>
Revenues (excluding export flowback)	\$2,629,550,531	\$2,651,409,844
Transportation Cost of Service	<u>(738,238,678)</u>	<u>(732,228,687)</u>
Cost of Gas Sold	<u><u>\$1,891,311,853</u></u>	<u><u>\$1,919,181,157</u></u>
 Total Domestic and Export Sales	 1,127,855,313GJ	 1,127,855,313GJ
 Imputed Alberta Border Price	 167.691¢/GJ	 170.162¢/GJ

TOTAL REVENUES

TransCanada's calculation of total revenues from domestic and export sales and transportation services rendered, is based on the current export prices in effect, the prices for domestic sales currently prescribed under the PAA, as set out in Appendix VII, and

its proposed tolls for transportation services. The Board has increased total revenues to \$3,465,412,569, to reflect its decision to increase transportation tolls for transportation services. The approved transportation tolls are shown in Appendix VII. No adjustment was made in respect of projected revenues from domestic and export sales.

EXPORT FLOWBACK

For the purpose of the Minister's formula for calculating the imputed Alberta border price, export flowback means that part of the revenue received by TransCanada from export sales which exceeds the aggregate of the imputed Alberta border price as determined by the formula and the costs of transmission applicable to those sales. The Board has adjusted the export flowback amount to \$814,002,725, to reflect the higher new imputed Alberta border price of 170.162¢/GJ, and the increased transportation tolls applicable to export sales as set out in Appendix VIII.

TRANSPORTATION COST OF SERVICE

In calculating the imputed Alberta border price in accordance with the Minister's formula, the Board has used the transportation cost of service of \$732,228,687 authorized in this decision. Details of adjustments to the transportation cost of service are provided in Chapter 5.

CHAPTER 8
DISPOSITION

In Chapter 2 of these Reasons for Decision, the Board concluded that the Applicant's cost of service should continue to be regulated on a forward test year basis by authorizing a specific cost of service and designing tolls based on that authorized cost of service, as has been done in past rate decisions by the Board. The application for approval of the GSTT Rate Schedule, under which the tolls charged, received, and retained by the Applicant each month in respect of all transmission services provided by it would be determined on a variable, monthly cost of service basis, is therefore dismissed. Similarly, TransCanada's application for an order authorizing the deferral in each month of the difference between

1. the Company's actual transmission cost of service, exclusive of the cost of gas sold, as determined in accordance with the GSTT Rate Schedule; and
 2. the revenues actually collected and retained for the month from gas sales and transportation services after deducting the cost of gas sold;
- is also dismissed.

TransCanada also applied for the modification or termination of existing Orders providing for deferrals in respect of Transmission by Others, Rate Case Expenses, exchange rate fluctuations on debt service payments, gains and losses on the purchase of debt, and gains and losses on Transmission Line Pack, as more particularly described in paragraph 20 of the Application. Since these changes in existing deferral Orders were proposed for the purpose of implementing the new scheme of regulation applied for by TransCanada, the application for the modification or termination of these Orders is also dismissed. Except as hereinafter specified, there will be no change in the existing Orders relating to these deferrals.

For the reasons given in Chapter 3, the Board has dismissed the application to vary the treatment of AFUDC so as to base it on a floating rate tied to the prime interest rate. TransCanada shall continue to record AFUDC at a fixed rate equal to the annual rate of return on rate base.

On the basis of the decisions set out in Chapters 3 to 5 of these Reasons for Decision, the Board has determined that the total authorized transportation cost of service for the test year period from 1 July 1981 to 30 June 1982 is \$732,228,687.

As indicated in Chapter 5, the Board considers it appropriate to extend the existing deferral provisions for Transmission by Others to include the tolls charged by TQ&M for transmission services provided to TransCanada. The Board therefore directs that TransCanada record in a deferral account the differences between the tolls charged by TQ&M and such amounts recovered by TransCanada from its net revenues which will be available to pay TQ&M's charges. The amount so deferred, with carrying charges, should be submitted to the Board in the next rate hearing for disposition.

TransCanada requested that, in the event that variable, monthly cost of service tolls based on the GSTT Rate Schedule were not approved, the Board make an Order fixing and allowing new rates, tolls and tariffs in accordance with Volume 2 of its application, as amended.

With respect to the tolls to be charged for transportation services rendered to others, the Board is satisfied that the toll for T-Service for Gaz Métro should continue to be determined on the basis that the tolls, when added to the imputed Alberta border price, would be equal to the CD Rate in the Eastern Zone when adjusted for the fuel supplied by Gaz Métro. The Board also agrees that the tolls charged to Consolidated and Sulpetro for the transportation of gas from Empress to the international boundary should be equal to the tolls established for similar services. In its application, TransCanada proposed that, subject to the above adjustment of the tolls charged to Consolidated and Sulpetro, there be no change in the tolls for the transportation of export gas and for transportation services rendered to Saskatchewan Power and Consolidated. In the Board's view, it would be more appropriate that these tolls be adjusted to reflect the increased cost of service applicable in the test year.

The calculation of the tolls for T-Service rendered to Gaz Métro and for transportation services rendered to Saskatchewan Power, Consolidated and Sulpetro is set out in Appendix IX. In the Board's opinion, the tolls set out in that Appendix for T-Service and for the other transportation services are just and reasonable.

There remains the question as to what Order, if any, should be made by the Board under Part IV of the NEB Act in relation to the tolls to be charged in respect of natural gas transmitted through the Applicant's pipeline and sold for consumption in Canada. Under Part IV of the NEB Act, where the gas transported by a company through its pipeline is the property of the company, the contracts for the sale of that gas are required to be filed with the Board under subsection 51(2) and are deemed to be tariffs. Section 61 of the NEB Act provides that, where the gas transmitted by a company through its pipeline is the property of the company, the differential between the cost to the company of the gas at the point where it enters its pipeline and the amount for which the gas is sold by the company, is deemed to be a toll charged by the company to the purchaser of the gas. Applying these provisions, the Board has, in prior cases, varied the rates for the sale of such gas specified in those tariffs so that the rates are equal to the aggregate of the cost of the gas to the Company and the just and reasonable tolls determined by the Board.

Since 1 November 1975, when Part III of the PAA came into force, the cost of gas purchased by TransCanada in Alberta for transmission and sale by it has been equal to the imputed Alberta border price as determined from time to time under the operation of the PAA. The imputed Alberta border price has been the cost of gas component of the rates established by the Board for the sale of gas under Part IV of the NEB Act since 1 November 1975. Under the practice which has evolved since that time, when the Board has made an order under Part IV of the NEB Act, it has recommended to the Governor in Council that prices be prescribed under Part III of the NEB Act. Since 1975, the Governor in Council has prescribed prices for gas sold by TransCanada for consumption in Canada under Part III of the PAA equivalent to those rates established by the Board.

Under section 63 of the PAA, where there is any conflict between prices established under Part IV of the NEB Act and prices prescribed under Part III of the PAA, the latter prices prevail. Circumstances have arisen in relation to this application which raise, in the Board's mind, some question as to the utility of its making any order under Part IV of the NEB Act in relation to the rates to be charged for gas sold by TransCanada for consumption in Canada. More particularly, those circumstances are as follows:

1. Under the Minister's Policy Statement of 14 April 1981, it is indicated that the existing Eastern Zone on the TransCanada system will be extended to include those areas served by the proposed new TQ&M pipeline system in Quebec and the Maritime Provinces. The result of the extension of the Eastern Zone in this manner would be to significantly depart from the principles applied under Part IV of the NEB Act in relation to the determination of tolls and rates on a volumetric and mileage basis.
2. The Policy Statement further indicates that prices for natural gas under Part III of the PAA will no longer be derived from rates developed under Part IV of the NEB Act. While the policy statement indicates that prices in zones west of the Eastern Zone on the TransCanada system will be somewhat lower so as to recognize lower transportation costs, these prices may no longer be differentiated on the basis of tolls developed under Part IV of the NEB Act.

In light of the foregoing, it is clear that, were the Board to make an Order establishing rates for gas sold by TransCanada, such an Order would establish prices which would be in conflict with those presently in force under Part III of the PAA, and section 63 of that Act would operate to make those rates ineffective. If the Governor in Council were to change the prices prescribed under Part III of the PAA, there is little certainty in light of the Policy Statement that such new prescribed prices would be the same as rates determined under Part IV of the NEB Act. It is the Board's view that to make an order establishing rates under Part IV of the NEB Act for natural gas sold by the Applicant in Canada would, in

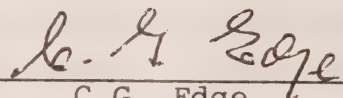
the present circumstances, be an academic exercise unlikely to have any practical consequence. Accordingly, it is the Board's view that it should not make an Order under Part IV of the NEB Act in relation to the tolls or rates to be charged in respect of that gas.

Applying the above considerations, the Board has restricted its Order under Part IV of the NEB Act to establishing those tolls applicable to various transportation services provided by TransCanada for others. The extent to which TransCanada recovers its cost of service for the test year in respect of gas sold by it for consumption in Canada will depend upon the prices established for the acquisition and sale of that gas under Part III of the PAA.

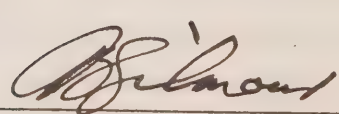
In the event that these prices may be changed from time to time by the Governor in Council under Part III of the PAA, TransCanada should, in accordance with Section 51 of the NEB Act, file amended tariffs reflecting these new prices.

* * * * *

The above reasons, together with Orders Nos. TG-3-81 and TG-4-81, constitute our decision and reasons for decision on the application by TransCanada.


C.G. Edge
Presiding Member


R.B. Horner
Member


A.B. Gilmour
Member

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-4-81

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder; and

IN THE MATTER OF an application by
TransCanada PipeLines Limited (hereinafter
called "the Applicant") for certain orders
respecting rates and tolls under Sections
50, 52, and 53 of the National Energy Board
Act and for certain orders under Section 53
of the Petroleum Administration Act, filed
with the Board under File No. 1562-T1-14.

B E F O R E the Board on Tuesday, the 19th day of May, 1981.

UPON reading the application filed on behalf of the
Applicant dated the 27th day of February, 1981, (hereinafter
called the "application"), firstly, under Sections 50, 52, and 53
of the National Energy Board Act, for orders fixing the just and
reasonable rates or tolls the Applicant may charge for or in
respect of gas transported and sold by the Applicant in Canada,
and for transportation services currently rendered to
Saskatchewan Power Corporation, Consolidated Natural Gas Limited,
Sulpetro Limited, and Gaz Métropolitain, inc., and disallowing
any existing tolls or portions thereof that are inconsistent with
the just and reasonable tolls so fixed and, secondly, under
Section 53 of the Petroleum Administration Act and the
Regulations made pursuant to Part III of that Act, for Special
and General Orders approving the price to be paid by the
Applicant to acquire gas for removal from the Province of Alberta
and revoking any previous orders inconsistent therewith, all
effective the 1st day of July 1981;

AND UPON the Minister of Energy, Mines and Resources having requested the Board, pursuant to subsection 22(2) of the National Energy Board Act, to inquire into and report-upon the following issues in relation to the domestic pricing of natural gas, being

1. the necessity for developmental prices in the domestic market in Canada, and
2. any other matters relevant to the pricing of natural gas in the domestic market;

IT IS ORDERED THAT:

1. That part of the application made under Sections 50, 52, and 53 of the National Energy Board Act and the inquiry, pursuant to subsection 22(2) of the National Energy Board Act, into any matters relevant to the pricing of natural gas in the domestic market in Canada, including the necessity for developmental prices, will be heard at a public hearing (hereinafter referred to as "the Hearing") commencing at 9:30 a.m. local time, on Monday, the 29th day of June 1981 in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario. The Hearing will be conducted in either of the two official languages and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.
2. The Applicant shall, forthwith, serve a true copy of the application, if not already served, and a true copy of this Order, upon all of the Applicant's customers, the Attorneys

General of the Provinces of Alberta, Saskatchewan, Manitoba, Ontario and Quebec, the Canadian Gas Association, the Canadian Petroleum Association, and the Independent Petroleum Association of Canada, at the addresses listed in Appendix I, and, as soon as possible, upon such other persons who have intervened pursuant to paragraph 4 hereof.

3. Notice of the Hearing in the form prescribed by the Board as set forth in the Notice attached to and which forms part of this Order shall be published not later than the 26th day of May, 1981 or as soon thereafter as possible, in one issue each of "The Herald" in the City of Calgary and "The Journal" in the City of Edmonton, both in the Province of Alberta, "The Leader-Post" in the City of Regina, in the Province of Saskatchewan; "The Winnipeg Free Press" in the City of Winnipeg, in the Province of Manitoba; "The Globe and Mail", "Toronto Star" and "The Financial Post", in the City of Toronto, "The Citizen" and "Le Droit" in the City of Ottawa, all in the Province of Ontario, "The Gazette", "La Presse" and "Financial Times of Canada" in the City of Montreal, Province of Quebec, and as soon as may be possible in the Canada Gazette.

4. Any person intending to oppose or intervene in the said application and inquiry, shall, on or before the 5th day of June 1981 file with the Secretary of the Board thirty (30) copies of a written statement containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the

nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Application, and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 5th day of June 1981, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorneys General of the Provinces of Alberta, Saskatchewan, Manitoba, Ontario and Quebec, the Canadian Gas Association, the Canadian Petroleum Association and the Independent Petroleum Association of Canada, and, as soon as possible, upon each other party who has intervened pursuant to this paragraph, a list of which parties will be provided by the Board on or about the 8th day of June, 1981.

5. The Applicant shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

- (a) on or before the 5th day of June, 1981 file thirty (30) copies thereof with the Board and serve one copy of the same upon each person specified in Appendix I to this Order, and
- (b) as soon as possible, serve one copy of the same upon any other party who has intervened pursuant to paragraph 4 of this Order.

6. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before the 23rd day of June, 1981 file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 4 hereof.

7. The Applicant or any party who has intervened pursuant to paragraph 4 or prepared written direct evidence pursuant to paragraphs 5 and 6 shall file proof of service thereof at the opening of the hearing.

8. The Rules and Procedures set out in Appendix II to this Order shall govern the conduct of the Hearing.

9. Any interested party may examine a copy of the application and the submissions filed therewith at the office of:

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A 0E5

or at the offices of the Applicant at the following addresses:

TransCanada PipeLines Limited,
Commerce Court West,
Toronto, Ontario
M5L 1C2

or

407-8th Avenue South West,
Calgary, Alberta
T2P 2M7

DATED at the City of Ottawa, in the Province of Ontario, this 19th day of May, 1981.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

NOTICE OF HEARING

TAKE NOTICE that, pursuant to the National Energy Board Act and Regulations made thereunder, the National Energy Board has ordered a hearing to be held in its Hearing Room, Trebla Building, 473 Albert Street, Ottawa, Ontario, commencing on Monday, 29 June 1981 at 9:30 a.m. local time, respecting:

(a) An application by TransCanada PipeLines Limited under Sections 50, 52, and 53 of the National Energy Board Act for orders fixing the just and reasonable rates or tolls the Applicant may charge for or in respect of gas transported and sold by the Applicant in Canada, for transportation services currently rendered to Saskatchewan Power Corporation, Consolidated Natural Gas Limited, Sulpetro Limited, and Gaz Métropolitain, inc., and disallowing any existing tolls or portions thereof that are inconsistent with the just and reasonable tolls so fixed; and

(b) An inquiry pursuant to subsection 22(2) of the National Energy Board Act, into any matters relevant to the pricing of natural gas in the domestic market in Canada, including the necessity for developmental prices.

Such proceedings will be conducted in either of the two official languages and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.

AND THE BOARD HAS FURTHER ORDERED THAT:

1. Any person intending to oppose or intervene in the said Application, shall, on or before 5 June 1981 file with the Secretary of the Board thirty (30) copies of a written statement containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the application, which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent, and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 5 June 1981, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorneys General of the Provinces of Alberta, Saskatchewan, Manitoba, Ontario and Quebec, and the Canadian Gas Association, the Canadian Petroleum Association and the Independent Petroleum Association of Canada, and as soon as possible upon each other party who has intervened pursuant to this paragraph, a list of which parties will be provided by the Board on or about the 8th day of June, 1981.

2. Any party who has intervened pursuant to paragraph 1 hereof and who wishes to present direct evidence, shall prepare written direct evidence, and shall, on or before 23 June 1981

file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each of the parties who has intervened pursuant to paragraph 2 hereof.

3. Any party who has intervened pursuant to paragraph 1 or has prepared written direct evidence pursuant to paragraph 2 shall file proof of service thereof with the Board at the opening of the hearing.

4. Any interested party may examine a copy of the application and the submissions filed therewith at the office of:

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A 0E5

or at the offices of the Applicant at the following addresses:

TransCanada PipeLines Limited,
Commerce Court West,
Toronto, Ontario
M5L 1C2

or

407-8th Avenue South West,
Calgary, Alberta
T2P 2M7

G. Yorke Slader,
Secretary,
National Energy Board

Dated at Ottawa, Canada
19 May 1981

APPENDIX I

to Order No. RH-4-81

Attorney General for the
Province of Alberta,
227 Legislative Buildings,
Edmonton, Alberta
T5K 2B6

Attorney General for the
Province of Saskatchewan,
Legislative Buildings,
Regina, Saskatchewan
S4S 0B3

Attorney General for the
Province of Manitoba,
104 Legislative Buildings,
Winnipeg, Manitoba
R3C 0V8

Attorney General of the
Province of Ontario,
18 King Street East,
Parliament Buildings,
Toronto, Ontario
M5C 1C5

and

Senior Counsel,
Legal Services,
Ministry of Energy,
56 Wellesley Street West,
12th Floor,
Toronto, Ontario
M7A 2B7

Procureur général de la
Province de Québec,
Edifice Delta,
1200 route de l'église,
Ste-Foy, Québec
G1R 4X7

and

Me Danièle Houde, avocat,
Service juridique du Ministère
de l'énergie et des ressources,
200B, chemin Ste-Foy,
Québec City, Québec
G1R 4X7

Mr. W.H.D. Alton,
President, Government Relations,
Canadian Gas Association,
55 Scarsdale Road,
Don Mills, Ontario
M5B 2R3

Mr. J. Poyen,
President and Chief Executive
Officer,
Canadian Petroleum Association,
1500 - 633 - Sixth Avenue S.W.,
Calgary, Alberta
T2P 2Y5

Mr. A.E. Potter,
Manager, Regulatory Affairs,
Independent Petroleum Association
of Canada,
1610 Norcen Tower,
715 - 5th Avenue S.W.,
Calgary, Alberta
T2P 2X6

RULES AND PROCEDURES

1. In these Rules, "party" means TransCanada PipeLines Limited and any respondent or intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-4-81.

2. At the public hearing of the application by TransCanada PipeLines Limited and of the inquiry respecting the pricing of natural gas in the domestic market in Canada, the evidence shall be heard in the following order:

Phase I: Application under Part IV of the National Energy Board Act:

1. Scheme of regulation.
2. Rate Base and Cost of Service excluding return
3. Rate of Return
4. Tariffs and Toll design.

Phase II: Inquiry under section 22(2) of the National Energy Board Act respecting the pricing of natural gas in the domestic market in Canada.

3. The Board shall hear the evidence of all parties upon Phase I of the hearing before proceeding to hear the evidence in Phase II of the hearing.

4. Upon the completion of all the evidence in both Phases I and II of the hearing, the Board will hear oral argument on both Phases I and II of the hearing.

5. Any party who wishes to obtain additional information from another party in respect of matters raised in filings made with the Board may request in writing that such information be provided, and the party to whom the request is made shall, as soon as possible, either provide a written response to the request or refer the question to the Board under Paragraph 7 hereof. Wherever possible, in order to expedite the Hearing, such requests and responses should be made before the commencement of the Hearing, and copies shall be filed with the Secretary of the Board.

6. Both the written requests and the responses thereto, referred to in paragraph 5 of these Rules, shall be filed as exhibits at the hearing.

7. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board, and the motion shall be heard by the Board at the Hearing on a date to be fixed by it.

8. The order of appearances of parties and sequence of adducing evidence and conducting cross-examination will be announced by the Board on or before the opening of the hearing.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. TG-3-81

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;
and

IN THE MATTER OF an application by TransCanada
PipeLines Limited (hereinafter called "the
Applicant") for certain Orders respecting
tariffs and rates and tolls pursuant to
Sections 50 and 53 of the National Energy
Board Act, filed with the Board under File
No. 1562-T1-14.

BEFORE:

C.G. Edge)	
Chairman)	
	)	on Wednesday, the 5th day of
R.B. Horner)	
Member	)	August, 1981.
)	
A.B. Gilmour)	
Member)	

UPON an application by the Applicant dated the 27th
day of February, 1981, inter alia, for orders under sections 50
and 53 of the National Energy Board Act fixing the just and
reasonable rates or tolls the Applicant may charge for or in
respect of gas transported and sold by the Applicant in Canada
and for transportation services rendered to Saskatchewan Power
Corporation, Consolidated Natural Gas Limited, Sulpetro Limited,
and Gaz Métropolitain, inc. and disallowing any existing tolls
or portions thereof that are inconsistent with the just and
reasonable tolls so fixed, effective the 1st day of July, 1981;

AND UPON the Board having heard the evidence and
submissions relating to the said application at a public
hearing which commenced on the 29th day of June, 1981;

- 2 -

IT IS ORDERED THAT:

1. The Applicant shall charge in respect of its T-Service and Transportation Service the tolls specified in Schedule A hereto.

2. The Applicant's proposed amendment to Sheet No. 20 of the General Terms and Conditions of its Tariff, providing for the inclusion of the Boisbriand Delivery Point in the Eastern Delivery Area, and the Applicant's proposed revised maps for inclusion in the said Tariff, be and the same are hereby approved.

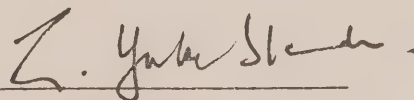
AND IT IS FURTHER ORDERED THAT:

3. The Applicant shall forthwith file with the Board and serve upon all parties to the hearing of this application new tariffs and tolls conforming with this Order.

4. Notwithstanding the filing of the said new tariffs and tolls, the same shall remain suspended and be of no effect until the 1st day of September, 1981.

5. Those provisions of the Applicant's tariffs and tolls, or any portion thereof, that are contrary to any order of the Board, including this Order, be and the same are hereby disallowed, such disallowance to be effective on the 31st day of August, 1981.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

SCHEDULE ATRANSCANADA PIPELINES LIMITEDTOLLS FOR CANADIAN TRANSPORTATION AND T-SERVICEEFFECTIVE: 1 SEPTEMBER 1981

<u>Particulars</u>	<u>Transportation Demand Rate (\$/10³m³/mo.)</u>	<u>Transportation Commodity Rate (\$/10³m³)</u>
<u>T-Service</u>		
<u>Gaz Métropolitain, inc.</u>	504.63	4.268
(Fuel Ratio 0.0693)		
<u>Transportation Service</u>		
<u>Saskatchewan Power Corporation</u>		
Empress	82.58	1.392
Bayhurst & Liebenthal	75.87	1.282
Success	57.19	0.965
Herbert	16.73	0.306
<u>Consolidated Natural Gas Limited</u>		
Empress	195.78	3.310
Herbert	160.08	2.707
<u>Sulpetro Limited</u>	586.73	9.859

ORDER NO. TG-4-81

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;
and

IN THE MATTER OF an application by TransCanada
PipeLines Limited (hereinafter called "the
Applicant") for certain Orders respecting
tariffs and rates and tolls pursuant to
sections 50 and 53 of the National Energy
Board Act, filed with the Board under File
No. 1562-T1-14.

BEFORE:

C.G. Edge)	
Chairman)	
	)	on Wednesday, the 5th day of
R.B. Horner)	
Member	)	August, 1981.
)	
A.B. Gilmour)	
Member)	

UPON an application by the Applicant dated the 27th
day of February, 1981, inter alia, for orders under sections 50
and 53 of the National Energy Board Act fixing the just and
reasonable rates or tolls the Applicant may charge for or in
respect of gas transported and sold by the Applicant in Canada
and for transportation services rendered to Saskatchewan Power
Corporation, Consolidated Natural Gas Limited, Sulpetro Limited,
and Gaz Métropolitain, inc. and disallowing any existing tolls
or portions thereof that are inconsistent with the just and
reasonable tolls so fixed, effective the 1st day of July, 1981;

AND UPON the Applicant having requested that the
Board, by Order,

- 2 -

- (a) approve its proposed General System Transportation Tolls ("GSTT") Rate Schedule for the determination of the tolls to be charged, received, or retained by the Applicant in each month in respect of the natural gas transmitted by it through its pipeline and sold by it or transmitted through its pipeline for others outside of the Province of Alberta;
- (b) approve, for accounting and rate-making purposes, the determination and recording in a deferral account for each month the difference between
 - (i) the Applicant's actual transmission cost of service, exclusive of the cost of gas sold, permitted to be charged and retained under the proposed GSTT Rate Schedule, and
 - (ii) the revenues actually collected and retained for the month from gas sales and transportation services after deducting the cost of gas sold;
- (c) modify or terminate, for accounting and rate-making purposes, existing orders of the Board providing for deferrals in respect of Transmission by Others, Rate Case Expenses, exchange rate fluctuations on debt service payments, gains and losses on the purchase of debt, and gains and

- 3 -

losses on Transmission Line Pack, all as more particularly described in paragraph 20 of the Application;

- (d) approving the inclusion in the Applicant's cost of service for each month of all charges for gas transportation services provided by Trans Québec & Maritimes Pipeline Inc., Union Gas Limited, and Great Lakes Gas Transmission Company; and
- (e) approving the variation for accounting purposes, effective the 1st day of January, 1981, of the AFUDC rate so as to permit the Applicant to employ a monthly floating rate based on the prior month ending Bank of Canada prime interest rate plus one percent;

AND UPON the Applicant having alternatively requested, in the event that the GSTT Rate Schedule is not approved, that the Board, by Order,

- (a) modify the accounting order for the deferral of variances in Transmission by Others to provide for the deferral of all charges for gas transmission services provided to the Applicant by Trans Québec & Maritimes Pipeline Inc.; and

- 4 -

- (b) provide for the deferral of the difference between the Applicant's revenues from the sale of gas at Boisbriand and the incremental cost of such sales to the Applicant;

AND UPON the Board having, in its determination of the Applicant's transmission cost of service, included a provision with carrying charges as at the 1st day of September, 1981, in respect of the Special Canadian Ownership Charge deferred from the 1st day of May, 1981, and the increase in the Excise Tax deferred from the 1st day of July, 1981;

IT IS ORDERED THAT:

1. The Applicant's request for the approval of the GSTT Rate Schedule be and the same is hereby dismissed.
2. The Applicant's request for the approval of the deferral for each month of the difference between its actual transmission cost of service, exclusive of the cost of gas sold, as determined in accordance with the GSTT Rate Schedule, and the revenues actually collected and retained for each such month from sales and transportation services, after deducting the cost of gas sold, be and the same is hereby dismissed.
3. The Applicant's request for the modification or termination of existing orders providing for deferrals in respect of Transmission by Others, Rate Case Expenses, exchange

- 5 -

rate fluctuations on debt service payments, gains and losses on the purchase of debt, and gains and losses on Transmission Line Pack, all as more particularly set forth in paragraph 20 of the Application, be and the same is hereby dismissed.

4. The Applicant's request for authorization to include in its cost of service for each month all charges for gas transportation services provided by Trans Québec & Maritimes Pipeline Inc., Union Gas Limited, and Great Lakes Gas Transmission Company be and the same is hereby dismissed.

5. The Applicant's request for the approval of a variation in its AFUDC rate for accounting purposes effective the 1st day of January, 1981, be and the same is hereby dismissed.

AND IT IS FURTHER ORDERED THAT:

6. The Applicant shall, effective the 1st day of September, 1981, record in a deferral account each month the difference between the tolls charged by Trans Québec & Maritimes Pipeline Inc. for transportation services provided to the Applicant and the amount recovered by the Applicant from its revenues on account of those tolls, which amount shall be calculated for each month by subtracting from the revenue from the sale of gas to Gaz Métropolitain, inc. at Boisbriand, the aggregate of

- (a) the imputed Alberta border price for the month, and

- 6 -

- (b) the incremental cost of transporting that gas in the Applicant's pipeline, calculated at \$11.035/10³m³,

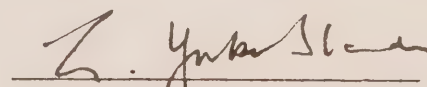
together with interest on the month-end balance of the account calculated at a rate equal to 1/12 of the authorized annual Rate of Return on Rate Base.

7. The Applicant's request for the approval of the deferral of the difference between the Applicant's revenues from the sale of gas at Boisbriand and the incremental cost of such sales to the Applicant be and the same is hereby dismissed.

AND IT IS FURTHER ORDERED THAT:

8. The Applicant shall, for accounting purposes, record in a deferral account as at the 31st day of August, 1981, the actual costs resulting from the Special Canadian Ownership Charge deferred from the 1st day of May, 1981, and the increase in the Excise Tax deferred from the 1st day of July, 1981, together with carrying charges on the monthly deferred balances to the 31st day of August, 1981, calculated at the monthly average of the prime interest rates established by the Canadian Imperial Bank of Commerce and the Royal Bank of Canada, and the amount so determined shall, for accounting purposes, be amortized in equal monthly installments over the 12-month period commencing on the 1st day of September, 1981.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

TRANSCANADA PIPELINES LIMITED

Comparison of Components of Rate of Return
Previously Authorized, Applied For and Approved

	Previously Authorized			Applied For			Authorized In This Decision		
	Capital Structure	Cost Rate	Cost Component	Capital Structure	Cost Rate	Cost Component	Capital Structure	Cost Rate	Cost Component
	%	%	%	%	%	%	%	%	%
Funded Debt	46.46	8.43	3.92	56.62	11.09	6.28	56.73	11.09	6.28
Unfunded Debt	17.64	12.75	2.25	5.75	16.50	0.95	5.63	16.50	.93
Total Debt Capital	64.10	9.62	6.17	62.37	11.59	7.23	62.36		7.21
Preferred Share Capital	5.90	7.36	.43	7.63	9.17	.70	7.64	9.17	.70
Common Equity	30.00	15.00	4.50	30.00	16.75	5.03	30.00	15.75	4.72
	100.00			100.00			100.00		
Overall Rate of Return			11.10			12.96			12.63

WEIGHTED AVERAGE COST OF FUNDED DEBT CAPITAL FOR
THE TEST YEAR ENDING 30 JUNE, 1982
(\$000)

	<u>AVERAGE PRINCIPAL OUTSTANDING</u>	<u>FINANCIAL CHARGES</u>	<u>COST RATE</u>
<u>FIRST MORTGAGE PIPE LINE BONDS</u>			
6 1/4% due 1983 (U.S.)	10,662	666	
6 3/4% due 1983	4,935	333	
5 5/8% due 1985 (U.S.)	8,898	501	
7 1/8% due 1987 (U.S.)	41,944	2,989	
9 1/4% Series A due 1992	59,877	5,539	
9 1/4% Series B due 1992	25,009	2,313	
8 7/8% Series A due 1993	41,830	3,712	
8 7/8% Series B due 1993	<u>6,704</u>	<u>595</u>	
	<u>199,859</u>	<u>16,648</u>	8.33%
<u>SINKING FUND DEBENTURES</u>			
10% Series A due 1990	34,086	3,408	
9 3/4% Series B due 1990	41,975	4,093	
9% Series C due 1991	35,523	3,197	
8 7/8% Series D due 1992	77,093	6,842	
9% Series E due 1993	79,442	7,150	
11 1/2% Series F due 1995	45,605	5,245	
9.60% Series G due 1997	<u>68,522</u>	<u>6,578</u>	
	<u>382,246</u>	<u>36,513</u>	9.55%
Term Loan, due 1986	<u>75,000</u>	<u>13,313</u>	17.75%
<u>SUBORDINATED DEBENTURES</u>			
5.85% due 1987	30,672	1,794	
5.60% due 1987 (U.S.)	11,746	658	
	<u>42,418</u>	<u>2,452</u>	5.78%
	699,523	68,926	
Bond Premium Adjustment (199,859,000 x .0025)		(500)	
Amortization of Debt Discount and Expense		1,337	
Gain on Sinking Fund Redemptions		(9,901)	
Foreign Exchange on Interest Expense		915	
Foreign Exchange on Redemptions		<u>1,727</u>	
<u>FUNDED DEBT</u>	<u>699,523</u>	<u>62,504</u>	8.94%

PROPOSED FUNDED DEBT
FINANCING FOR THE
TEST YEAR ENDING 30 JUNE 1982

Private Placement

U.S. \$400,000,000 - Canadian Equivalent \$476,000,000
(\$1 U.S. = \$1.19 Cdn.)

First Mortgage Pipe Line Bonds

16% Fixed Rate Series due 1996	(U.S. \$000)	(Cdn. \$000)
Projected Issue Dates - June 30, 1981	\$126,262*	\$150,251
September 30, 1981	94,650	112,634
December 31, 1981	47,088	56,035
March 31, 1982	132,000	157,080
	<u>\$400,000</u>	<u>\$476,000</u>

Estimated Issue Costs - $\frac{1}{2}$ of 1% or \$2,380,000 Cdn.

Weighted average balance projected to be outstanding during the test year: \$150,251 + (112,634 x .75) + (56,035 x .5) + (157,080 x .25) = 302,014 or 63.45% of the issue

Weighted average cost of proposed debt capital in \$ Cdn.:

Financial Charges -	\$302,014 x 16%	=	\$48,322
Amortization of Issue Costs	(\$ 2,380 ÷ 15) x .6345	=	<u>101</u>
			<u>\$48,423</u>

Effective Cost Rate: $\frac{\$ 48,423}{\$302,014} = \underline{\underline{16.03\%}}$

* Adjusted to reflect actual June 30, 1981 drawdown data.

TRANSCANADA PIPELINES LIMITED
EXISTING PRESCRIBED PRICES FOR CANADIAN SALES
IN EFFECT FROM 1 NOVEMBER 1980

Particulars	Rate Schedule	Transportation Demand Rate (\$/10 ³ m ³ /mo.)	Transportation Commodity Rate (\$/10 ³ m ³)	Gas Component of Price (¢/GJ)
Saskatchewan Zone	CD	53.64	0.803	177.565
	AOI		2.787	177.565
	SGS		5.212	177.565
	PS		71.220	177.565
	TWS		26.040	177.565
Manitoba Zone	CD	158.44	2.379	177.565
	AOI		6.819	177.565
	PS		71.220	177.565
	TWS		26.040	177.565
Western Zone	CD	257.33	3.861	177.565
	AOI		10.669	177.565
	PS		71.220	177.565
	TWS		26.040	177.565
Northern Zone	CD	400.58	6.016	177.565
	AOI-NDA*		16.062	177.565
	AOI-SSMDA**		21.210	177.565
	PS		71.220	177.565
	TWS		31.330	177.565
Eastern Zone	CD	504.63	7.676	177.565
	AOI		17.732	177.565
	ACQ		21.467	177.565
	PS		99.460	177.565
	TWS		33.100	177.565

* Northern Delivery Area

** Sault Ste Marie Delivery Area

TRANSCANADA PIPELINES LIMITED

CALCULATION OF ADJUSTMENT FACTORS FOR TRANSPORTATION TOLLS

	<u>Total</u>	<u>Fixed</u>	<u>Variable</u>
Transmission by Others	\$123,443,149	\$ 49,114,352	\$ 74,328,797
Operation and Maintenance	247,686,583	87,515,001	160,171,582
Taxes Other than Income	19,891,932	19,891,932	
Depreciation	64,224,926	64,224,926	
Income Taxes	77,746,523	77,746,523	
Misc. Deferred Items	(995,577)	(995,577)	
Return	<u>200,231,151</u>	<u>200,231,151</u>	
Total	<u>\$732,228,687</u>	<u>\$497,728,308</u>	<u>\$234,500,379</u>

System Volume		33 714 900 10^3 m^3
Contracted Daily Volume	105 250 $10^3 \text{ m}^3/\text{d}$	
Average Rates	\$394.084/ $10^3 \text{ m}^3/\text{mo}$	\$ 6.955/ 10^3 m^3
1 Nov. 1980 Average Rates	\$356.418/ $10^3 \text{ m}^3/\text{mo}$	5.600/ 10^3 m^3
Increase	\$ 37.666/ $10^3 \text{ m}^3/\text{mo}$	\$ 1.355/ 10^3 m^3
Percentage Increase	<u>10.568%</u>	<u>24.196%</u>

TRANSCANADA PIPELINES LIMITED

APPROVED TRANSPORTATION TOLLS

<u>Service</u>	<u>Demand</u> <u>(\$/10³ m³/mo)</u>	<u>Commodity</u> <u>(\$/10³ m³)</u>
T-Service		
Gaz Metropolitain (Fuel ratio 0.0693)	504.63	4.268(1)
Transportation		
<u>Saskatchewan Power Corporation</u>		
Empress	82.58	1.392
Bayhurst & Liebenthal	75.87	1.282
Success	57.19	0.965
Herbert	16.73	0.306
<u>Consolidated Natural Gas</u>		
Herbert	160.08	2.707
Empress	195.78	3.310
<u>Sulpetro</u>	586.73	9.859
Exports(2)		
Inter-City	191.82	3.243
Midwestern	195.78	3.310
Great Lakes	195.78	3.310
Michigan Wisconsin	195.78	3.310
Niagara	622.84	10.482
Vermont	655.85	11.035
Consolidated	195.78	3.310
Sulpetro	586.73	9.859

$$(1) \quad 4.268 = 74.210 - [0.0693 \times (1.70162 + .636) \times 37.53] - 1.70162 \times 37.53$$

- (2) Transportation tolls to be used for the purpose of determining export flowback pursuant to Orders made under Section 53 of the PAA.



From the Office of the Minister

81/51

April 14, 1981

POLICY STATEMENT ON DOMESTIC NATURAL GAS PRICING

The National Energy Program establishes a natural gas pricing policy which will encourage consumers to use natural gas in preference to oil. In accordance with this policy, prices for natural gas shipped interprovincially, for all centres east of Alberta, will be set in accordance with the following guidelines:

1. For the purpose of pricing, the existing TransCanada PipeLines eastern zone will be extended to include the area to be served by the planned eastern extension of the pipeline system.
2. Natural gas price in markets east of Toronto will be the same as the price at the Toronto city-gate for the same type of gas service.
3. Natural gas prices in zones west of the TransCanada PipeLines eastern zone will be linked to the Toronto city-gate price, but will be somewhat lower recognizing lower transportation costs.
4. There will be a uniform imputed Alberta border price for all natural gas produced in Alberta and consumed in Canada outside that province, and for fuel used in transmission on the Great Lakes system for gas transported back to Canada.

Development prices may be necessary, at least in new markets, in order to achieve the National Energy Program (NEP) objective of increased natural gas sales in Canada. Accordingly, the National Energy Board (NEB) will be asked to examine this subject and to report on the matter of development prices.

All prices will be prescribed by the Governor in Council, on the advice of the National Energy Board, under Part III of the Petroleum Administration Act rather than being derived from rates developed under Part IV of the National Energy Board Act as is the case now. The Minister of Energy, Mines and Resources will periodically request the NEB under Part II of the National Energy Board Act to review and report on matters associated with the pricing of natural gas sold in the domestic market.

The existing three-part pricing system, which consists of the imputed Alberta border price plus transportation demand and commodity rates, will remain in effect until 30 June 1981. Effective 1 July 1981, the same prices will be prescribed as two-part prices with a demand and commodity component. The commodity component will include the cost of gas at the imputed Alberta border price.

Imputed Alberta Border Price

TransCanada PipeLines and Trans Quebec and Maritimes Pipeline will be considered as one integrated pipeline system, and the imputed Alberta border price will be established by the Minister under Part III of the Petroleum Administration Act based on the following formula:

- a) the total revenues received by TransCanada PipeLines and Trans Quebec and Maritimes Pipeline for all domestic sales and export sales (excluding the export flowback) and transportation services provided to others east of Alberta;
- less
- b) the total cost of transmission and metering and all other costs associated with the movement of gas on the integrated system as approved by the NEB;

and the result divided by:

- c) the total domestic and export sales volumes of TransCanada PipeLines and Trans Quebec and Maritimes Pipeline east of Alberta.

For the purpose of the above formula, export flowback means that part of the revenue received by TransCanada PipeLines and Trans Quebec and Maritimes Pipeline from export sales which exceeds the aggregate of the imputed Alberta border price as determined by the formula and the costs of transportation from the Alberta border to the points at which TransCanada PipeLines and Trans Quebec and Maritimes Pipeline deliver the gas for export.

